

INTERNATIONAL SPECIALTY PRODUCTS INC /NEW/

FORM 10-K405

(Annual Report (Regulation S-K, item 405))

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Address	300 DELAWARE AVENUE SUITE 303 WILMINGTON, Delaware 19801
Telephone	302-427-5715
CIK	0001026738
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

**[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

OR

**[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 000-29764

INTERNATIONAL SPECIALTY PRODUCTS INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State of Incorporation)

51-0376469
(I.R.S. Employer Identification No.)

300 DELAWARE AVENUE
SUITE 303
WILMINGTON, DELAWARE
(Address of Principal Executive Offices)

19801
(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (302) 427-5715

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, par value \$.01 per share New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best knowledge of International Specialty Products Inc., in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

As of March 15, 2002, 64,550,939 shares of common stock of the registrant were outstanding. The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 15, 2002 was \$99,576,422. The aggregate market value was computed by reference to the closing price on the New York Stock Exchange of common stock of the registrant on such date (\$8.92). For purposes of the computation, voting stock held by executive officers and directors of the registrant has been excluded. Such exclusion is not intended, and shall not be deemed, to be an admission that such executive officers and directors are affiliates of the registrant.

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DOCUMENTS INCORPORATED BY REFERENCE

The Proxy Statement for the 2002 Annual Meeting of Stockholders of International Specialty Products Inc. to be filed within 120 days after the registrant's fiscal year-end (the "Proxy Statement") is incorporated by reference in Part III, Items 10, 11, 12 and 13.

PART I

ITEM 1. BUSINESS

GENERAL

International Specialty Products Inc., formerly known as ISP Holdings Inc., is a leading multinational manufacturer of specialty chemicals and mineral products. Unless otherwise indicated by the context, "we," "us," "our," and "ISP" refer to International Specialty Products Inc. and its consolidated subsidiaries.

ISP operates its business exclusively through its direct and indirect subsidiaries. ISP was incorporated in Delaware in 1996. ISP owns all of the issued and outstanding capital stock of International Specialty Holdings Inc., formerly known as Newco Holdings, which was formed in 2001 in connection with an internal restructuring we completed in June 2001. International Specialty Holdings owns all of the issued and outstanding capital stock of ISP Chemco Inc., formerly known as ISP Opco Holdings Inc., and ISP Investco LLC. ISP Chemco operates our specialty chemicals business, exclusively through its direct and indirect subsidiaries. ISP Investco was formed in 2001 for the purpose of holding all of our investment assets and related liabilities.

In December 2001, we entered into a letter agreement to sell our pharmaceutical fine chemicals business to Pharmaceutical Resources, Inc. On March 14, 2002, we announced that the sale would not be consummated, due to the failure of Pharmaceutical Resources to proceed with the transaction in a timely manner. Under the terms of the letter agreement, we received a \$3.0 million break-up fee.

The address and telephone number of our principal executive offices are 300 Delaware Avenue, Suite 303, Wilmington, Delaware 19801, (302) 427-5715.

Financial information concerning our industry segments and foreign and domestic operations required by Item 1 is included in Notes 17 and 18 to our Consolidated Financial Statements included in this Annual Report on Form 10-K.

SPECIALTY CHEMICALS

PRODUCTS AND MARKETS.

We manufacture a broad spectrum of specialty chemicals having numerous applications in consumer and industrial products. We use proprietary technology to convert various raw materials, through a chain of one or more processing steps, into increasingly complex and higher value-added specialty chemicals specifically developed to meet customer requirements.

Our specialty chemicals business is organized based upon the markets for our products. Accordingly, we manage our specialty chemicals in the following three business segments:

- o Personal Care -- whose products are sold to the skin care and hair care markets;
- o Pharmaceutical, Food and Beverage -- whose products are sold to these three government-regulated industries; and
- o Performance Chemicals, Fine Chemicals and Industrial -- whose products are sold to numerous consumer and industrial markets.

In each of the years ending December 31, 1999, 2000 and 2001, sales of specialty chemicals represented approximately 90% of our revenues. For information about the amount of sales by each of our specialty chemicals business segments, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations," and Note 17 to our Consolidated Financial Statements included in this Annual Report on Form 10-K. Most of our specialty chemical products fall within the following categories:

- o VINYL ETHER MONOMERS -- includes several products for use in specialty and radiation-cured coatings. Our vinyl ether monomers are marketed by the Performance Chemicals group of our Performance Chemicals, Fine Chemicals and Industrial business segment.

o VINYL ETHER COPOLYMERS -- includes our GANTREZ(R) line of products. These products serve as a bioadhesive resin in consumer products such as tartar-control toothpaste, denture adhesives and facial pore strips. Vinyl ether copolymers are marketed by our Personal Care and Pharmaceutical, Food and Beverage business segments.

o POLYVINYL PYRROLIDONE (PVP) POLYMERS AND COPOLYMERS -- represents our largest product group. These polymers and copolymers are marketed by all of our business segments. Our PLASDONE(R), POLYCLAR(R) and GAFQUAT(R) product lines, which are used as tablet binders, beverage clarifiers and hair fixative resins, respectively, are included in this group.

o INTERMEDIATES -- includes butanediol, butenediol, butynediol, and propargyl alcohol for use in numerous industrial applications. Intermediates are marketed by our Performance Chemicals, Fine Chemicals and Industrial business segment. Our largest selling intermediate product is butanediol, which is utilized by industrial companies to manufacture spandex fibers and polybutylene terephthalate (PBT) plastics for use in automobiles.

o SOLVENTS -- includes our M-PYROL(R) brand of N-methyl pyrrolidone (NMP), for use in metal degreasing and paint stripping, BLO(R) brand of gamma-butyrolactone, for use by electronics companies in the manufacture of semiconductors and micro-processing chips, and tetrahydrofuran (THF), which is used in the manufacture and installation of PVC pipe. Solvents are also marketed by our Performance Chemicals, Fine Chemicals and Industrial business segment.

o ALGINATES -- includes sodium alginate, propylene glycol alginate and other alginate derivatives for use as thickeners, stabilizers and viscosity modifiers. These products are marketed by our Pharmaceutical, Food and Beverage business segment, with the majority of our sales to the food industry.

The balance of our specialty chemical products are marketed by our Performance Chemicals, Fine Chemicals and Industrial business segment, along with sunscreens, preservatives and emollients, each marketed by our Personal Care business segment.

PERSONAL CARE. Our Personal Care business segment markets numerous specialty chemicals that serve as critical ingredients in the formulation of many well-known skin care, hair care, toiletry and cosmetic products.

Our skin care ingredients include:

o ultraviolet (UV) light absorbing chemicals, which serve as sunscreens;

o emollients, which provide skin softness;

o moisturizers, which enhance the skin's water balance;

o waterproofing agents, which enhance the performance of eye-liners and sunscreens in wet environments; and

o preservatives, which extend the shelf life of aqueous-based cosmetic formulations by preventing the growth of harmful bacteria.

Our ESCALOL(R) sunscreen actives serve as the primary active ingredient in many of the most popular sunscreens today and increasingly find applications in many other products such as lipsticks and facial creams. Our SUNSPHERES(TM) product, which was jointly developed through our strategic alliance with a third party, significantly enhances the sun protection properties of UV absorbers used in skin care, makeup and beach products. Our CERAPHYL(R) line of emollients and moisturizers provides a variety of popular bath products with their softening and moisturizing characteristics. We produce a growing number of specialty preservatives, including GERMALL(R) Plus, a patented product that offers broad-spectrum anti-microbial activity, and SUTTOCID(R) A, a preservative gentle enough for infant care products.

Our hair care ingredients, marketed under the GANTREZ(R), GAFQUAT(R), and PVP/VA family of products, include a number of specially formulated fixative resins which provide hairsprays, mousses and gels with their holding power, as well as thickeners and stabilizers for shampoos and conditioners. Utilizing our combined expertise in

hair care and sunscreen applications, we developed the world's first high performance hair protectant, ESCALOL(R) HP-610, to prevent sun damage to hair. We also developed a new polymer, AQUAFLEX(R) FX-64, for use in styling products and low VOC hair sprays where it provides a soft feeling with a long lasting hold for both aerosol and pump spray applications.

PHARMACEUTICAL, FOOD AND BEVERAGE. Our specialty chemicals for the Pharmaceutical, Food and Beverage markets provide a number of end-use products with their unique properties while enabling these products to meet increasingly strict regulatory requirements.

In the pharmaceutical market, our specialty chemicals serve as key ingredients in the following types of products:

- o prescription and over-the-counter tablets;
- o injectable prescription drugs and serums;
- o cough syrups;
- o antiseptics;
- o toothpastes; and
- o denture adhesives.

Our PLASDONE(R) and POLYPLASDONE(R) polymers for tablet binders and tablet disintegrants are established excipients for use in the production of wet granulated tablets, and our GANTREZ(R) bioadhesive polymers serve as critical ingredients in denture adhesives and tartar control toothpastes.

Our advanced materials product line includes the FERRONYL(R) brand of dietary iron supplement, which is marketed to the pharmaceutical industry.

In the food and beverage markets, our alginates and acetylene-derived polymers serve as critical ingredients in the manufacture of numerous consumer products, including salad dressings, cheese sauces, fruit fillings, beer and health drinks. For example, our alginates products, marketed under the KELCOLOID(R) tradename, are used as stabilizers in many well-known consumer products, while our acetylene-based specialty polymers, marketed under the POLYCLAR(R) tradename, serve the beverage market by assuring the clarity and extending the shelf life of beer, wine and fruit juices.

PERFORMANCE CHEMICALS, FINE CHEMICALS AND INDUSTRIAL. Our Performance Chemicals business includes acetylene-based polymers, vinyl ether monomers and advanced materials for consumer, agricultural and industrial applications. Our acetylene-based chemistry produces a number of performance chemicals for use in a wide range of markets including:

- o coatings;
- o agriculture;
- o imaging;
- o detergents;
- o electronics; and
- o metalworking.

VIVIPRINT(TM) is our new line of polymers developed for specialty coating applications in ink jet printing. These products provide significant moisture and abrasion resistance, high gloss and excellent resolution for high quality printers and photo reproductions.

Our advanced materials product line includes high-purity carbonyl iron powders, sold under the MICROPOWDER(R) name, for use in the aerospace, defense, electronics and powder metallurgy industries.

On December 31, 2001, we acquired the industrial biocides business of Degussa Corporation. This business is comprised of a broad range of preservatives and fungicides for various product applications, including paints and coatings. The acquisition, which includes a manufacturing plant in Toronto, Canada, complements our strategic platform for preservation and significantly expands our specialty chemicals offering to the coatings industry.

Our Fine Chemicals business focuses on the production of a variety of highly specialized products sold to the pharmaceutical, biotechnology, agricultural and imaging markets. We also offer custom manufacturing services for these industries. The pharmaceutical ingredients portion of the business is centered in our Columbus, Ohio facility.

We have expanded our Freetown, Massachusetts manufacturing facility's production capabilities to allow for the manufacture of some specialty chemical product lines for our Personal Care business segment and to offer custom manufacturing capability to the pharmaceutical, biotechnology, agricultural and chemical process industries. In connection with the relocation of some of our production lines for our Personal Care business segment to our Freetown facility, we shut down our manufacturing operation at our Belleville, New Jersey plant in the first quarter of 2001.

In our Industrial business, we market several intermediate and solvent products, such as butanediol, tetrahydrofuran (THF) and N-methyl pyrrolidone (NMP), for use in a variety of industries, including:

- o high performance plastics;
- o lubricating oil and chemical processing;
- o electronics cleaning; and
- o coatings.

In addition, we offer a family of environmentally friendly products that can replace chlorinated and other volatile solvents for a variety of industrial uses, including cleaning, stripping and degreasing.

In the first quarter of 2001, we shut down production of butanediol at our Texas City facility and now manufacture butanediol solely at our Marl, Germany facility. We continue to produce polymers at our Calvert City and Texas City plants and also continue to produce propargyl alcohol from butynediol.

MARKETING AND SALES.

We market our specialty chemicals using a worldwide marketing and sales force, typically chemists or chemical engineers, who work closely with our customers to familiarize themselves with our customers' products, manufacturing processes and markets. We primarily sell our specialty chemicals directly to our customers through our global distribution network. We sell a limited portion of our specialty chemicals through distributors. We conduct our domestic marketing and sales efforts from our facility in Wayne, New Jersey and regional offices strategically located throughout the United States.

INTERNATIONAL OPERATIONS.

We conduct our international operations through 39 subsidiaries and 48 sales offices located in Europe, Canada, Latin America and the Asia-Pacific region. We also use the services of local distributors to reach markets that might otherwise be unavailable to us.

International sales of our specialty chemicals in 1999, 2000 and 2001 were approximately 48%, 50% and 52% of our total sales for those periods, respectively. Approximately 38% of our specialty chemicals sales in 2001 were in Europe and Japan. For more information about our international sales, see Note 18 to our Consolidated Financial Statements included in this Annual Report on Form 10-K. International sales are subject to exchange rate fluctuation risks. For a discussion of our policy regarding the management of these risks, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and

Financial Condition." Other countries in which we have sales are subject to additional risks, including high rates of inflation, exchange controls, government expropriation and general instability.

We own and operate ISP Marl GmbH, primarily a butanediol manufacturing facility, and ISP Acetylene GmbH, an acetylene production plant. Both production facilities are located at Degussa's Chemiepark site in Marl, Germany, and each relies upon Degussa to provide specific services, including utilities, rail transport and waste handling. We believe that the production costs for butanediol and THF at ISP Marl are among the most competitive in the industry. ISP Acetylene operates a fully-dedicated modern production facility that provides ISP Marl with its primary raw material, acetylene. ISP Acetylene, which employs electric arc technology for the production of acetylene from various hydrocarbon feedstocks, utilizes state-of-the-art gas separation technology. ISP Acetylene's entire production is dedicated to fulfilling ISP Marl's requirements and has no third-party sales.

We operate an alginates manufacturing plant in Girvan, Scotland and a research and administrative center in Tadworth, England. In addition, we hold equity investments in three seaweed processing joint ventures located in Ireland, Iceland and Tasmania. These joint ventures serve to provide our alginates business with a steady supply of its primary raw material, seaweed.

For information about the locations of our long-lived international assets, see Note 18 to our Consolidated Financial Statements included in this Annual Report on Form 10-K.

RAW MATERIALS.

Because of the multi-step processes required to manufacture our specialty chemicals, we believe that our raw materials costs represent a smaller percentage of the cost of goods sold than for most other chemical companies. We estimate that approximately one-third of our manufacturing costs are for raw materials, including energy and packaging. As a result, we believe that fluctuations in the price of raw materials have less of an impact on our specialty chemicals business than on those chemical companies for which raw materials costs represent a larger percentage of manufacturing costs.

The principal raw materials used in the manufacture of our acetylene-based specialty chemicals are acetylene, methanol and methylamine. Most of the raw materials for consumption in the United States are obtained from third party sources pursuant to supply agreements. Acetylene, a significant raw material used in the production of most of our specialty chemicals, is obtained by us for domestic use from two unaffiliated suppliers pursuant to supply contracts. At our Texas City, Texas plant, acetylene is primarily supplied via pipeline by a neighboring large multinational company that generates this raw material as a by-product from the manufacture of ethylene. At our Calvert City, Kentucky facility, acetylene is supplied via pipeline by a neighboring company that generates it from calcium carbide.

Due to the nature of the manufacturing process, electricity and hydrocarbon feedstocks, primarily butane, are critical raw materials for the production of acetylene at our operations in Marl, Germany, where methanol is also a principal raw material. Electricity, butane and methanol for our Marl, Germany operations are supplied by Degussa pursuant to a long-term supply agreement.

We believe that the diversity of our acetylene supply sources and our use of a number of acetylene production technologies, including ethylene by-product, calcium carbide and electric arc technology, provide us with a reliable supply of acetylene. In the event of a substantial interruption in the supply of acetylene from current sources, or, in the case of ISP Marl, electricity and hydrocarbon feedstocks, we cannot assure that we would be able to obtain as much acetylene from other sources as would be necessary to meet our supply requirements. To date, we have not experienced an interruption of our acetylene supply that has had a material adverse effect on our sales of specialty chemicals.

The principal raw material used in the manufacture of alginates consists of select species of seaweed. We process seaweed in both wet and dry forms. We use our own specially designed vessels to harvest, under government license, wet seaweed from leased kelp beds in the Pacific Ocean to supply our San Diego, California facility. Our Girvan, Scotland facility processes primarily dry seaweed purchased from our joint ventures in Iceland, Ireland and Tasmania, as well as from independent suppliers in South America. We believe that the

species of seaweed required to manufacture alginates will remain readily available and that we will have adequate access to this seaweed to provide us with adequate supplies of this raw material for the foreseeable future.

Availability of other raw materials, including methanol and methylamine, remained adequate during 2001. We believe that, in the event of a supply interruption, we could obtain adequate supplies of raw materials from alternate sources.

We use natural gas and raw materials derived from petroleum in many of our manufacturing processes and, consequently, the price and availability of natural gas and petroleum could be material to our operations. During 2001, supplies of natural gas and petroleum remained adequate.

MINERAL PRODUCTS

PRODUCTS AND MARKETS.

We manufacture mineral products consisting of semiceramic-coated colored roofing granules, algae resistant granules and headlap granules, which are produced from rock deposits that are mined and crushed at our quarries. We utilize a proprietary process to produce our colored and algae resistant roofing granules. We sell our mineral roofing granules primarily to the United States roofing industry for use in the manufacture of asphalt roofing shingles. The granules help to provide weather resistance, decorative coloring, heat deflection and increased weight in the shingle. We are the second largest of only three major suppliers of colored roofing granules in the United States. For information about the amount of sales of our mineral products see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations," and Note 17 to our Consolidated Financial Statements included in this Annual Report on Form 10-K.

We estimate that approximately 80% of the asphalt shingles currently produced by the roofing industry are sold for the reroofing/replacement market, in which demand is driven not by the pace of new home construction but by the needs of homeowners to replace existing roofs. Homeowners generally replace their roofs either because they are worn, thereby creating concerns as to weather-tightness, or because of the homeowners' desire to upgrade the appearance of their homes. We estimate that the balance of the roofing industry's asphalt shingle production historically has been sold primarily for use in new housing construction. Sales of our colored mineral granules have benefited from a trend toward the increased use of heavyweight, three-dimensional laminated roofing shingles which results in both functional and aesthetic improvements. These shingles require, on average, approximately 60% more granules than traditional three-tab, lightweight roofing shingles.

Sales to Building Materials Corporation of America, or BMCA, our affiliate, and its subsidiaries constituted approximately 79% of our mineral products net sales in 2001. See Item 13, "Certain Relationships and Related Transactions" and Note 16 to our Consolidated Financial Statements included in this Annual Report on Form 10-K. See also Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations -- 2001 Compared with 2000."

MARKETING AND SALES.

We market our mineral products on a national basis to residential and commercial roofing manufacturers utilizing a direct sales team with expertise in product application and logistics. We ship finished products using rail and trucks from three manufacturing facilities strategically located throughout the United States. From our offices located in Hagerstown, MD, we provide logistical support and operate a customer design center to engineer product applications according to our customers' requirements. Our technical services and manufacturing teams provide support and consultation services upon specific requirements by our customers.

RAW MATERIALS.

We own rock deposits that have specific performance characteristics, including weatherability, the ability to reflect UV light, abrasion-resistance, non-staining characteristics and the ability to absorb pigments. We own three quarries, each with proven reserves, based on current production levels, of more than 20 years.

COMPETITION

We believe that we are either the first or second largest seller, based on revenues, worldwide of our specialty chemicals derived from acetylene, other than butanediol and tetrahydrofuran, and the second largest seller, based on revenues, of alginates.

In each end-use market, there are a limited number of companies that produce substitutable products for our acetylene-derived specialty chemicals. These companies compete with us in the personal care, pharmaceutical, beverage and industrial markets and have the effect of limiting our market penetration and pricing flexibility. For our specialty chemicals not derived from acetylene, including alginates, sunscreens, emollients, moisturizers and fine chemicals, a number of world-wide competitors can provide similar products or services.

Butanediol, which we produce primarily for use as a raw material, is also manufactured by a limited number of companies throughout the world for both their captive use or to supply the merchant market. We believe that there are three competitors of significance for merchant market butanediol. One of these competitors supplies the merchant market from its plants in the United States and in Europe. Two other competitors each supply the merchant market from their single manufacturing plants in the United States. Tetrahydrofuran and N-methyl pyrrolidone are manufactured by a number of companies throughout the world.

With regard to our mineral products, we have only one larger and one smaller competitor and believe that competition has been limited by:

- o the substantial capital expenditures associated with the construction of new mineral processing and coloring plants and the acquisition of suitable rock reserves;

- o the limited availability of proven rock sources;

- o the complexity associated with the construction of a mineral processing and coloring plant, together with the technical know-how required to operate such a plant;

- o the need to obtain, prior to commencing operations, reliable data over a substantial period of time regarding the weathering of granules in order to assure the quality and durability of the product; and

- o the difficulty in obtaining the necessary permits to mine and operate a quarry.

Competition in the markets for our specialty chemicals and mineral products is largely based upon product and service quality, technology, distribution capability and price. We believe that we are well-positioned in the marketplace as a result of our broad product lines, sophisticated technology and worldwide distribution network.

RESEARCH AND DEVELOPMENT

Our worldwide research and development expenditures were \$23.0, \$25.6 and \$25.4 million in 1999, 2000 and 2001, respectively.

Our research and development activities are conducted primarily at our worldwide technical center and laboratories in Wayne, New Jersey. Additional research and development is conducted at plant sites in Calvert City, Kentucky; Texas City, Texas; Chatham, New Jersey; Freetown, Massachusetts; Columbus, Ohio; San Diego, California; and Girvan, Scotland, and at a research center in Piscataway, New Jersey, as well as at technical centers in the United Kingdom, Germany, China, Singapore, Mexico and Israel. Our mineral products research and development facility, together with our customer design and color center, is located in Hagerstown, Maryland.

ENVIRONMENTAL SERVICES

We have received site designation for the construction of a hazardous waste treatment, storage and disposal facility at our Linden, New Jersey property and have received approval from the New Jersey Turnpike Authority for a direct access ramp extension from the New Jersey Turnpike to the site. If we are successful in securing the necessary permits to construct and operate the hazardous waste facility and decide to proceed with this project, we would develop and operate the facility in a separate subsidiary, either on our own or in a joint venture with a

suitable partner. We estimate that the cost of constructing the facility will be approximately \$100 million and, if approved, the facility is anticipated to be in operation three years after commencement of construction. We anticipate utilizing internally generated cash and/or seeking project or other independent financing for this project. We are also investigating other development opportunities at this site consistent with a plan by the County of Union to re-develop the Tremley Point area of Linden. We expect that related planning and evaluation efforts will continue through 2002.

PATENTS AND TRADEMARKS

As of December 31, 2001, we owned or licensed approximately 370 domestic and 540 foreign patents or patent applications and owned or licensed approximately 155 domestic and 2,015 foreign trademark registrations or applications related to our business. While we believe the patent protection covering some of our products is material to those products, we do not believe that any single patent, patent application or trademark is material to our business or operations. We believe that the duration of the existing patents and patent licenses is consistent with our business needs.

ENVIRONMENTAL COMPLIANCE

Since 1970, a wide variety of federal, state and local environmental laws and regulations relating to environmental matters have been adopted and amended. By reason of the nature of our operations and the operations of our predecessor and certain of the substances that are or have been used, produced or discharged at our or our predecessor's plants or at other locations, we are affected by these environmental laws and regulations. We have made capital expenditures of approximately \$5.0 million in each of 1999 and 2000, and approximately \$6.3 million in the year ended December 31, 2001, in order to comply with these laws and regulations. These expenditures are included in additions to property, plant and equipment. We anticipate that aggregate capital expenditures relating to environmental compliance in each of the years 2002 and 2003 will be approximately \$6.0 million.

The environmental laws and regulations deal with air and water emissions or discharges into the environment, as well as the generation, storage, treatment, transportation and disposal of solid and hazardous waste, and the remediation of any releases of hazardous substances and materials to the environment. We believe that our manufacturing facilities comply in all material respects with applicable environmental laws and regulations, and, while we cannot predict whether more burdensome requirements will be adopted by governmental authorities in the future, we believe that any potential liability for compliance with environmental laws and regulations will not materially affect our business, liquidity, results of operations, cash flows or financial position.

EMPLOYEES

At December 31, 2001, we employed approximately 2,600 people worldwide. Approximately 725 employees in the United States were subject to seven union contracts. We believe that our relations with our employees and their unions are satisfactory.

OTHER DEVELOPMENTS

On May 24, 2001, at Hercules Incorporated's Annual Meeting, three of our director nominees, including Messrs. Heyman and Kumar, were elected as directors. On June 28, 2001, Hercules' board unanimously appointed our fourth director nominee as a director.

ITEM 2. PROPERTIES

Our corporate headquarters and principal research and development laboratories are located at a 100-acre campus-like office and research park owned by one of our subsidiaries at 1361 Alps Road, Wayne, New Jersey 07470.

The principal domestic and foreign real properties either owned by, or leased to, us are described below. Unless otherwise indicated, the properties are owned in fee. In addition to the principal facilities listed below, we maintain sales offices and warehouses in the United States and abroad, substantially all of which are in leased premises under relatively short-term leases.

LOCATION -----	FACILITY -----	PRODUCT LINE -----
DOMESTIC		
Alabama, Huntsville	Plant*	Specialty Chemicals
California, San Diego	Plant*	Specialty Chemicals
Kentucky, Calvert City	Plant	Specialty Chemicals
Maryland, Hagerstown	Research Center, Design Center, Sales Office	Mineral Products
Massachusetts, Freetown	Plant, Research Center	Specialty Chemicals
Missouri, Annapolis	Plant, Quarry	Mineral Products
New Jersey		
Bridgewater	Sales Office*	Specialty Chemicals
Chatham	Plant, Research Center	Specialty Chemicals
Piscataway	Research Center*, Sales Office*	Specialty Chemicals
Wayne	Headquarters, Corporate Administrative Offices, Research Center	Specialty Chemicals
New York, New York City	Corporate Administrative Offices	N/A
Ohio, Columbus	Plant, Research Center, Sales Office	Specialty Chemicals
Pennsylvania, Blue Ridge Summit	Plant, Quarry	Mineral Products
Texas, Texas City	Plant	Specialty Chemicals
Wisconsin, Pembine	Plant, Quarry	Mineral Products
INTERNATIONAL		
Belgium, Sint-Niklaas	Sales Office, Distribution Center	Specialty Chemicals
Brazil, Sao Paulo	Sales Office*, Distribution Center*	Specialty Chemicals
Canada, Mississauga, Ontario	Sales Office*, Distribution Center*	Specialty Chemicals
Canada, Toronto, Ontario	Plant, Research Center, Sales Office, Warehouse	Specialty Chemicals
England, Tadworth	Research Center*, Sales Office*	Specialty Chemicals
Germany Cologne	European Headquarters*, Research Center*, Sales Office*	Specialty Chemicals
Marl	Plants**, Sales Office**	Specialty Chemicals
India, Nagpur	Plant**	Specialty Chemicals
Israel, Haifa	Plant*, Research Center*	Specialty Chemicals
Japan, Tokyo	Sales Office*	Specialty Chemicals
Scotland, Girvan	Plant	Specialty Chemicals
Singapore	Sales Office*, Distribution Center*, Asia-Pacific Headquarters*, Warehouse*	Specialty Chemicals

* Leased property ** Long-term ground lease

We believe that our plants and facilities, which are of varying ages and are of different construction types, have been satisfactorily maintained, are in good condition, are suitable for their respective operations and generally provide sufficient capacity to meet production requirements. Each plant has adequate transportation facilities for both raw materials and finished products. In 2001, we made capital expenditures in the amount of \$53.0 million relating to plant, property and equipment.

ITEM 3. LEGAL PROCEEDINGS

We, together with other companies, are a party to a variety of proceedings and lawsuits involving environmental matters under the Comprehensive Environmental Response Compensation and Liability Act, the Resource Conservation and Recovery Act and similar state laws, in which recovery is sought for the cost of cleanup of contaminated sites or remedial obligations are imposed, a number of which are in the early stages or have been dormant for protracted periods. We refer to these claims in this report as "Environmental Claims".

We estimate that our liability in respect of all Environmental Claims, including those relating to our closed Linden, New Jersey plant described below, and certain other environmental compliance expenses, as of December 31, 2001, is \$26.6 million, before reduction for insurance recoveries reflected on our balance sheet of \$21.7 million that relate to both past expenses and estimated future liabilities to which we refer as "estimated recoveries." While we cannot predict whether adverse decisions or events can occur in the future, in the opinion of management, the resolution of such matters should not be material to our business, liquidity, results of operations, cash flows or financial position. However, adverse decisions or events, particularly as to increases in remedial costs, discovery of new contamination, assertion of natural resource damages, plans for development of the Linden, New Jersey property, and the liability and the financial responsibility of our insurers and of the other parties involved at each site and their insurers, could cause us to increase our estimate of our liability in respect of those matters. It is not currently possible to estimate the amount or range of any additional liability.

After considering the relevant legal issues and other pertinent factors, we believe that we will receive the estimated recoveries and that the recoveries could be in excess of the current estimated liability for all Environmental Claims, although there can be no assurance in this regard. We believe we are entitled to substantially full defense and indemnity under our insurance policies for most Environmental Claims, although our insurers have not affirmed a legal obligation under the policies to provide indemnity for those claims.

Prior to January 1, 1997, ISP Holdings was a wholly owned subsidiary of GAF Corporation. On January 1, 1997, GAF effected a series of transactions involving its subsidiaries that resulted in, among other things, the capital stock of ISP Holdings being distributed to the stockholders of GAF. Since this distribution, we have not been a subsidiary of GAF or its successor by merger, G-I Holdings Inc. As used in this report, "G-I Holdings" includes G-I Holdings Inc. and any and all of its predecessors, including GAF Corporation, G-I Holdings Inc. and GAF Fiberglass Corporation.

In June 1997, G-I Holdings commenced litigation against the insurers on behalf of itself and its predecessors, successors, subsidiaries and related corporate entities seeking amounts substantially in excess of the estimated recoveries. While we believe that our claims are meritorious, there can be no assurance that we will prevail in our efforts to obtain amounts equal to, or in excess of, the estimated recoveries.

In June 1989, we entered into a Consent Order with the New Jersey Department of Environmental Protection requiring the development of a remediation plan for our closed Linden, New Jersey plant and the maintenance of financial assurances, currently \$7.5 million, to guarantee our performance. This Consent Order does not address any potential natural resource damage claims for which an estimate cannot currently be made. In April 1993, the New Jersey Department of Environmental Protection issued orders which require the prevention of discharge of contaminated groundwater and stormwater from the site and the elimination of other potential exposure concerns. We believe, although we cannot be certain, that, taking into account our plans for development of the site, we can comply with the New Jersey Department of Environmental Protection order at a cost of approximately \$17.0 million. See Item 1, "Business -- Environmental Services."

For more information about legal proceedings, see Notes 8 and 19 to our Consolidated Financial Statements included in this Annual Report on Form 10-K.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth the name, age, position and other information with respect to ISP's executive officers. Under ISP's By-laws, each director and executive officer continues in office until ISP's next annual meeting of stockholders and until his or her successor is elected and qualified. As used in this section, "ISP" refers to both Old ISP prior to the merger of Old ISP into ISP Holdings and ISP subsequent to the merger. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations".

NAME AND POSITION HELD	AGE	PRESENT PRINCIPAL OCCUPATION
		OR EMPLOYMENT AND FIVE-YEAR EMPLOYMENT HISTORY
-----	----	-----
Samuel J. Heyman Chairman of the Board	63	Mr. Heyman has been a director and Chairman of the Board of ISP Chairman of the Board since its formation and Chairman of the Board and director of one of its subsidiaries since December 2001. He was Chief Executive Officer of ISP and some of its subsidiaries from their formation to June 1999. Mr. Heyman also has been a director of G-I Holdings for more than five years and was President and Chief Executive Officer of G-I Holdings and some of its subsidiaries for more than five years until September 2000. In January 2001, G-I Holdings filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code due to its asbestos-related claims. Mr. Heyman was a director and Chairman of the Board of BMCA from its formation to September 2000 and served as Chief Executive Officer of BMCA and some of its subsidiaries from June 1999 to September 2000 and from June 1996 to January 1999. He is also the Chief Executive Officer, Manager and General Partner of a number of closely held real estate development companies and partnerships whose investments include commercial real estate and a portfolio of publicly traded securities. Mr. Heyman has served as a director of Hercules Incorporated, a global manufacturer and marketer of specialty chemicals, since May 2001.
Sunil Kumar President and Chief Executive Officer	52	Mr. Kumar has been a director, President and Chief Executive Officer of ISP and a director and President and Chief Executive Officer of some of its subsidiaries since June 2001 and June 1999, respectively. Mr. Kumar was a director, President and Chief Executive Officer of BMCA and some of its subsidiaries from May 1995, July 1996 and January 1999, respectively, to June 1999. He also was Chief Operating Officer of BMCA and some of its subsidiaries from March 1996 to January 1999. Mr. Kumar was President, Commercial Roofing Products Division, and Vice President of BMCA from February 1995 to March 1996. He also was a director and Vice-Chairman of the Board of G-I Holdings from January 1999 to June 1999. In January 2001, G-I Holdings filed a voluntary petition for reorganization under Chapter 11 of the U. S. Bankruptcy Code due to its asbestos-related claims. Mr. Kumar has served as a director of Hercules Incorporated since May 2001.

NAME AND POSITION HELD	AGE	PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT AND FIVE-YEAR EMPLOYMENT HISTORY
Richard A. Weinberg Executive Vice President, General Counsel and Secretary	42	Mr. Weinberg has been Executive Vice President, General Counsel and Secretary of ISP and its subsidiaries since May 1998 and was Senior Vice President, General Counsel and Secretary of ISP and its subsidiaries from May 1996 to May 1998. He has also been serving as a director of various ISP subsidiaries since February 2002, December 2001 and May 1996. Mr. Weinberg has been President, Chief Executive Officer, General Counsel and Secretary of G-I Holdings since September 2000 and was Executive Vice President, General Counsel and Secretary of G-I Holdings from May 1998 to September 2000. He also was Senior Vice President, General Counsel and Secretary of these corporations from May 1996 to May 1998. Mr. Weinberg has served as a director of G-I Holdings since May 1996. In January 2001, G-I Holdings filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code due to its asbestos-related claims. Mr. Weinberg also has been Executive Vice President, General Counsel and Secretary of BMCA and its subsidiaries since May 1998, and was Senior Vice President, General Counsel and Secretary of BMCA and its subsidiaries from May 1996 to May 1998.
Susan B. Yoss Executive Vice President-- Finance and Treasurer	43	Ms. Yoss has been Executive Vice President-- Finance and Treasurer of ISP and its subsidiaries since September 2000. She was Senior Vice President and Treasurer of ISP and its subsidiaries from July 1999 to September 2000 and was Vice President and Treasurer of ISP and its subsidiaries from February 1998 to June 1999. She also has been Senior Vice President of BMCA and its subsidiaries since August 2001, was Senior Vice President and Treasurer of the same companies from July 1999 to August 2001 and was Vice President and Treasurer of the same companies from February 1998 to July 1999. Ms. Yoss also has served as Senior Vice President, Chief Financial Officer and Treasurer of G-I Holdings since July 1999. In January 2001, G-I Holdings filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code due to its asbestos-related claims. She was Assistant Treasurer of Joseph E. Seagram & Sons, Inc., a global beverage and entertainment company for more than five years until February 1998.
Paul T. Brady Senior Vice President-- Sales, Americas	39	Mr. Brady has been Senior Vice President-- Sales, Americas of ISP, and a director of one of its subsidiaries since June 2001. He was Vice President -- Sales, North America for ISP and some of its subsidiaries from November 2000 to June 2001. Mr. Brady was Vice President, Global Commercial Operations -- ISP Alginates Inc. from October 1999 to November 2000. He was employed as Senior Director -- Sales and Marketing of Monsanto Company's Kelco Alginates from January 1998 to October 1999. He was Global Sales and Marketing Director of Monsanto Company's Kelco Biopolymers from June 1997 to January 1998 and was Business Director, Nutrasweet Kelco from November 1996 to June 1997.

NAME AND POSITION HELD	AGE	PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT AND FIVE-YEAR EMPLOYMENT HISTORY
Roger J. Cope Senior Vice President-- Sales and Commercial Director--Europe	57	Mr. Cope has been Senior Vice President-- Sales and Commercial Director-- Europe of ISP and one of its subsidiaries since July 1999 and a director of one of its subsidiaries since June 2001. He was Senior Vice President, Pharmaceutical, Agricultural and Beverage Group of ISP and some of its subsidiaries from July 1998 to July 1999 and Vice President, Asia-Pacific Region of the same corporations from March 1997 to July 1998. Mr. Cope also held the position of Vice President -- Hair Care of ISP and some of its subsidiaries from December 1995 to March 1997.
Neal E. Murphy Senior Vice President and Chief Financial Officer	45	Mr. Murphy has been Senior Vice President and Chief Financial Officer of ISP and its subsidiaries since February 2002 and a Chief Financial Officer director of one of its subsidiaries since February 2002. Prior to joining ISP, he was President of PQ Europe, a global developer and producer of silica-based specialty chemicals, inorganic chemicals and performance particles from August 1999 to September 2001 and Vice President and Chief Financial Officer of PQ Corporation, the parent of PQ Europe, from May 1995 until July 1999.
Stephen R. Olsen Senior Vice President-- Corporate Development and Strategy	39	Mr. Olsen has been Senior Vice President-- Corporate Development and Strategy of ISP, since September 2000 and a director of some of its subsidiaries since June 2001. He was President and Chief Operating Officer of LL Building Products Inc., one of BMCA's subsidiaries, from June 1999 to September 2000. He was Vice President, Corporate Development and Vice President and General Manager, Accessories and Specialty Products, of BMCA from May 1997 to October 1998 and also was Director, Operational Planning of BMCA from December 1993 to May 1997.
Steven E. Post Senior Vice President-- Operations for Specialty Chemicals	47	Mr. Post has been Senior Vice President-- Operations for Specialty Chemicals of ISP, and a director of one of its subsidiaries since June 2001. He has been President of ISP Alginates Inc. since October 1999. He was employed as President of Monsanto Company's Kelco Alginates division from January 1999 to October 1999. He served as Vice President and General Manager, Alginates of Monsanto Company from December 1997 to January 1999. He was Vice President, Manufacturing for the Nutrition and Consumer sector of Monsanto Company from January 1997 to December 1997. Mr. Post was Vice President, Manufacturing Services - Nutrasweet Kelco Division of Monsanto Company from January 1996 to January 1997.
Lawrence Grenner Senior Vice President-- Marketing and Product Development	59	Mr. Grenner has been Senior Vice President-- Marketing and Product Development of ISP and some of its subsidiaries since June 2000. He was Vice President and Business Unit Director, Skin Care of ISP and some of its subsidiaries from January 1999 to June 2000 and Vice President, Marketing-Personal Care of ISP and some of its subsidiaries from January 1997 to January 1999.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The following information pertains to our common stock, which is traded on the New York Stock Exchange. As of March 15, 2002, there were 188 holders of record of our outstanding shares of common stock.

	2001 BY QUARTER				2000 BY QUARTER			
	FIRST	SECOND	THIRD	FOURTH	FIRST	SECOND	THIRD	FOURTH
Price Range								
Per Share								
High	\$8.74	\$11.25	\$11.25	\$9.60	\$9.31	\$6.50	\$6.19	\$7.00
Low	6.63	7.80	7.95	7.85	5.75	5.19	5.31	5.00

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 13 to our Consolidated Financial Statements included in this Annual Report on Form 10-K for information regarding restrictions on the payment of dividends set forth on pages F-2 to F-11 and page F-30, respectively. We have not paid dividends since 1995. Any decision to resume the payment of dividends, and the timing and amount thereof, is dependent upon, among other things, our results of operations, financial condition, cash requirements, prospects and other factors deemed relevant by our Board of Directors. Accordingly, we cannot assure you that our Board of Directors will resume the declaration and payment of dividends or the amount thereof.

ITEM 6. SELECTED FINANCIAL DATA

See page F-12.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

See page F-2.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations --Liquidity and Financial Condition-Market Sensitive Instruments and Risk Management" on page F-9.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index on page F-1 and Financial Statements and Supplementary Data on pages F-14 to F-47.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information relating to the directors of ISP to be contained in the Proxy Statement under the heading "Election of Directors" is incorporated by reference herein. For information relating to the executive officers of ISP, see "Executive Officers of the Registrant" in Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION

The information to be contained in the Proxy Statement under the headings "Compensation of Executive Officers of the Company" and "Election of Directors" is incorporated by reference herein.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information to be contained in the Proxy Statement under the heading "Security Ownership of Certain Beneficial Owners and Management" is incorporated by reference herein.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information to be contained in the Proxy Statement under the captions "Election of Directors" and "Certain Transactions" is incorporated by reference herein.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

The following documents are filed as part of this report:

- (a)(1) Financial Statements: See Index on page F-1.
- (a)(2) Financial Statement Schedules: See Index on page F-1.
- (a)(3) Exhibits:

EXHIBIT NUMBER -----	DESCRIPTIONS -----
3.1 --	Amended and Restated Certificate of Incorporation of International Specialty Products Inc. (incorporated by reference to Exhibit 4.1 to Post-Effective Amendment No. 1 of Form S-8 to the Registration Statement on Form S-4 of International Specialty Products Inc. (Registration No. 333-53709) (the "ISP Registration Statement")).
3.2 --	By-laws of International Specialty Products Inc. (incorporated by reference to Exhibit 99.2 to the ISP Registration Statement).
4.1 --	Indenture, dated as of June 27, 2001, between ISP Chemco Inc., ISP Chemicals Inc., ISP Minerals Inc. and ISP Technologies Inc., as issuers, the subsidiary guarantors party thereto, and Wilmington Trust Company, as trustee (the "2011 Notes Indenture") (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-4 of ISP Chemco Inc. (Registration No. 333-70144) (the "ISP Chemco Registration Statement")).
4.2 --	Amendment No. 1 to the 2011 Notes Indenture, dated as of November 13, 2001 (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-4 of ISP Chemco Inc. (Registration No. 333-75574)).
4.3 --	Registration Rights Agreement, dated as of November 13, 2001, by and among ISP Chemco Inc., ISP Chemicals Inc., ISP Minerals Inc. and ISP Technologies Inc., as issuers, the subsidiary guarantors party thereto, and UBS Warburg LLC, as initial purchaser (incorporated by reference to Exhibit 4.5 to the Registration Statement on Form S-4 of ISP Chemco Inc. (Registration No. 333-75574)).
4.4 --	Indenture, dated as of December 13, 2001, between International Specialty Holdings Inc., as issuer and Wilmington Trust Company, as trustee.
4.5 --	A/B Exchange Registration Rights Agreement, dated as of December 13, 2001, by and among International Specialty Holdings Inc., as issuer and Bear Stearns & Co. Inc. and UBS Warburg LLC as initial purchasers.

10.1 -- Amended and Restated Management Agreement, dated as of January 1, 1999, by and among GAF Corporation, G-I Holdings Inc., G Industries Corp., Merick Inc., GAF Fiberglass Corporation, International Specialty Products Inc., GAF Building Materials Corporation, GAF Broadcasting Company, Inc., Building Materials Corporation of America and ISP Opco Holdings Inc. (incorporated by reference to Exhibit 10.1 to Building Materials Corporation of America's Annual Report on Form 10-K for the fiscal year ended December 31, 1998).

10.2 -- Amendment No. 1 to the Amended and Restated Management Agreement, dated as of January 1, 2000 by and among GAF Corporation, G-I Holdings Inc., G Industries Corp., Merick Inc., GAF Fiberglass Corporation, International Specialty Products Inc., GAF Building Materials Corporation, GAF Broadcasting Company, Inc., Building Materials Corporation of America and ISP Opco Holdings Inc., as assignee of International Specialty Products Inc. (incorporated by reference to Exhibit 10.2 to International Specialty Products Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (the "1999 Form 10-K")).

10.3 -- Amendment No. 2 to the Amended and Restated Management Agreement, dated as of January 1, 2001 by and among G-I Holdings Inc., Merick Inc., International Specialty Products Inc., GAF Broadcasting Company, Inc., Building Materials Corporation of America and ISP Opco Holdings Inc., as assignee of International Specialty Products Inc. (incorporated by reference to Exhibit 10.3 to International Specialty Products Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000 (the "2000 Form 10-K")).

10.4 -- Amendment No. 3 to the Amended and Restated Management Agreement, dated as of June 27, 2001 by and among G-I Holdings Inc., Merick Inc., International Specialty Products Inc., ISP Investco LLC, GAF Broadcasting Company, Inc., Building Materials Corporation of America and ISP Management Company, Inc., as assignee of ISP Chemco Inc. (incorporated by reference to Exhibit 10.7 to the ISP Chemco Registration Statement).

10.5 -- Amendment No. 4 to the Amended and Restated Management Agreement, dated as of January 1, 2002 by and among G-I Holdings Inc., Merick Inc., International Specialty Products Inc., ISP Investco LLC, GAF Broadcasting Company, Inc., Building Materials Corporation of America and ISP Management Company, Inc., as assignee of ISP Chemco Inc.

10.6 -- Indemnification Agreement, dated as of October 18, 1996, among GAF Corporation, G-I Holdings Inc., ISP Holdings Inc., G Industries Corp. and GAF Fiberglass Corporation (incorporated by reference to Exhibit 10.7 to the Registration Statement on Form S-4 of ISP Holdings Inc. (Registration No. 333-17827) (the "Holdings Registration Statement")).

10.7 -- Tax Sharing Agreement, dated as of January 1, 1997, among ISP Holdings Inc., International Specialty Products Inc. and certain subsidiaries of International Specialty Products Inc. (incorporated by reference to Exhibit 10.8 to the Holdings Registration Statement).

10.8 -- Tax Sharing Agreement, dated as of January 1, 2001, by and among International Specialty Products Inc., International Specialty Holdings Inc. and ISP Chemco Inc. (incorporated by reference to Exhibit 10.8 to the ISP Chemco Registration Statement).

10.9 -- Non-Qualified Retirement Plan Letter Agreement (incorporated by reference to Exhibit 10.11 to the Registration Statement on Form S-1 of International Specialty Products Inc. (Registration No. 333-40351)).*

10.10-- International Specialty Products Inc. 1991 Incentive Plan for Key Employees and Directors, as amended (incorporated by reference to Exhibit 4.3 to Post-Effective Amendment No. 1 on Form S-8 to the ISP Registration Statement).*

10.11 -- International Specialty Products Inc. 2000 Stock Option Plan for Non-Employee Directors (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-8 of International Specialty Products Inc. (Registration Statement No. 333-81490)).*

10.12 -- International Specialty Products Inc. 2000 Long-Term Incentive Plan (incorporated by reference to Annex A to International Specialty Products Inc.'s definitive proxy statement on Schedule 14A with respect to International Specialty Products Inc.'s 2000 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on April 20, 2000).*

10.13 -- Amendment No. 2 to the International Specialty Products Inc. 2000 Long-Term Incentive Plan (incorporated by reference to Annex C to International Specialty Products Inc.'s definitive proxy statement on Schedule 14A with respect to International Specialty Products Inc.'s 2001 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on April 20, 2001).*

10.14 -- Letter Agreement, dated September 29, 1999, between International Specialty Products Inc. and Sunil Kumar (incorporated by reference to Exhibit 10 to the International Specialty Products Inc.'s Quarterly Report on Form 10-Q for the fiscal quarter ended October 3, 1999).*

10.15 -- First Amendment to Letter Agreement dated September 29, 1999 between International Specialty Products Inc. and Sunil Kumar (incorporated by reference to Exhibit 10.11 to International Specialty Products Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000).*

10.16 -- International Specialty Products Inc. Yoss Restricted Share Plan (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-8 of International Specialty Products Inc. (Registration No. 333-52504)).*

10.17 -- International Specialty Products Inc. Olsen Restricted Share Plan (incorporated by reference to Exhibit 4.3 to the Form S-8 of International Specialty Products Inc. (Registration No. 333-52638)).*

10.18 -- International Specialty Products Inc. Olsen Restricted Share Plan II (incorporated by reference to Exhibit 4.3 to the Form S-8 of International Specialty Products Inc. (Registration No. 333-81486)).*

10.19 -- International Specialty Products Inc. Kumar Restricted Share Plan (incorporated by reference to Exhibit 4.3 to the Form S-8 of International Specialty Products Inc. (Registration No. 333-81488)).*

10.20 -- Compensation and Indemnification Agreement among Charles M. Diker, Burt Manning and International Specialty Products Inc., dated October 10, 1997 (incorporated by reference to Exhibit 10.23 to the ISP Registration Statement).*

10.21 -- Credit Agreement, dated as of June 27, 2001, between ISP Chemco Inc., ISP Chemicals Inc., ISP Minerals Inc. and ISP Technologies Inc., as borrowers, the subsidiary guarantors party thereto, the lenders party thereto, The Chase Manhattan Bank, as administrative agent, J.P. Morgan Securities Inc., as advisor, lead arranger and bookrunner, Bear Stearns Corporate Lending Inc. and UBS Warburg LLC, as co-syndication agents, and Deutsche Bank Alex. Brown Inc. and The Bank of Nova Scotia, as co-documentation agents (incorporated by reference to Exhibit 10.1 to the ISP Chemco Registration Statement).

10.22 -- Amendment No. 1 to Credit Agreement, dated as of July 24, 2001, by and among ISP Chemco Inc., ISP Chemicals Inc., ISP Technologies Inc. and ISP Minerals Inc., as borrowers, and The Chase Manhattan Bank, as administrative agent (incorporated by reference to Exhibit 10.2 to the ISP Chemco Registration Statement).

10.23 -- Pledge and Security Agreement, dated as of June 27, 2001, among ISP Chemco Inc., ISP Chemicals Inc., ISP Minerals Inc. and ISP Technologies Inc., as borrowers, the subsidiary guarantors party thereto, The Chase Manhattan Bank, as administrative agent, J.P. Morgan Securities Inc., as advisor, lead arranger and bookrunner, Bear Stearns Corporate Lending Inc. and UBS Warburg LLC, as co-syndication agents, and Deutsche Bank Alex. Brown Inc. and The Bank of Nova Scotia, as co-documentation agents (incorporated by reference to Exhibit 10.3 to the ISP Chemco Registration Statement).

21 -- Subsidiaries of International Specialty Products Inc.

23 -- Consent of Arthur Andersen LLP.

99.1 -- Letter to commission pursuant to temporary note 3T, dated March 22, 2002.

* Management and/or compensation plan or arrangement.

(b) Reports on Form 8-K

No reports on Form 8-K were filed in the fourth quarter of 2001.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERNATIONAL SPECIALTY PRODUCTS INC.

By: /s/ NEAL E. MURPHY

Neal E. Murphy
Senior Vice President and
Chief Financial Officer

Date: March 22, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 22, 2002, by the following persons on behalf of the Registrant and in the capacities indicated.

SIGNATURE	TITLE
-----	-----
/s/ SAMUEL J. HEYMAN	Chairman of the Board; Director
----- Samuel J. Heyman	
/s/ SUNIL KUMAR	President and Chief Executive Officer; Director
----- Sunil Kumar	(Principal Executive Officer)
/s/ CHARLES M. DIKER	Director
----- Charles M. Diker	
/s/ ROBERT ENGLANDER	Director
----- Robert Englander	
/s/ SANFORD KAPLAN	Director
----- Sanford Kaplan	
/s/ BURT MANNING	Director
----- Burt Manning	
/s/ ALAN M. MECKLER	Director
----- Alan M. Meckler	
/s/ NEAL E. MURPHY	Senior Vice President and Chief Financial Officer
----- Neal E. Murphy	(Principal Financial and Accounting Officer)

EXHIBIT
NUMBER

DESCRIPTIONS

3.1 -- Amended and Restated Certificate of Incorporation of International Specialty Products Inc. (incorporated by reference to Exhibit 4.1 to Post-Effective Amendment No. 1 of Form S-8 to the Registration Statement on Form S-4 of International Specialty Products Inc. (Registration No. 333-53709) (the "ISP Registration Statement")).

3.2 -- By-laws of International Specialty Products Inc. (incorporated by reference to Exhibit 99.2 to the ISP Registration Statement).

4.1 -- Indenture, dated as of June 27, 2001, between ISP Chemco Inc., ISP Chemicals Inc., ISP Minerals Inc. and ISP Technologies Inc., as issuers, the subsidiary guarantors party thereto, and Wilmington Trust Company, as trustee (the "2011 Notes Indenture") (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-4 of ISP Chemco Inc. (Registration No. 333-70144) (the "ISP Chemco Registration Statement")).

4.2 -- Amendment No. 1 to the 2011 Notes Indenture, dated as of November 13, 2001 (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-4 of ISP Chemco Inc. (Registration No. 333-75574)).

4.3 -- Registration Rights Agreement, dated as of November 13, 2001, by and among ISP Chemco Inc., ISP Chemicals Inc., ISP Minerals Inc. and ISP Technologies Inc., as issuers, the subsidiary guarantors party thereto, and UBS Warburg LLC, as initial purchaser (incorporated by reference to Exhibit 4.5 to the Registration Statement on Form S-4 of ISP Chemco Inc. (Registration No. 333-75574)).

4.4 -- Indenture, dated as of December 13, 2001, between International Specialty Holdings Inc., as issuer and Wilmington Trust Company, as trustee.

4.5 -- A/B Exchange Registration Rights Agreement, dated as of December 13, 2001, by and among International Specialty Holdings Inc., as issuer and Bear Stearns & Co. Inc. and UBS Warburg LLC as initial purchasers.

10.1 -- Amended and Restated Management Agreement, dated as of January 1, 1999, by and among GAF Corporation, G-I Holdings Inc., G Industries Corp., Merick Inc., GAF Fiberglass Corporation, International Specialty Products Inc., GAF Building Materials Corporation, GAF Broadcasting Company, Inc., Building Materials Corporation of America and ISP Opco Holdings Inc. (incorporated by reference to Exhibit 10.1 to Building Materials Corporation of America's Annual Report on Form 10-K for the fiscal year ended December 31, 1998).

10.2 -- Amendment No. 1 to the Amended and Restated Management Agreement, dated as of January 1, 2000 by and among GAF Corporation, G-I Holdings Inc., G Industries Corp., Merick Inc., GAF Fiberglass Corporation, International Specialty Products Inc., GAF Building Materials Corporation, GAF Broadcasting Company, Inc., Building Materials Corporation of America and ISP Opco Holdings Inc., as assignee of International Specialty Products Inc. (incorporated by reference to Exhibit 10.2 to International Specialty Products Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (the "1999 Form 10-K")).

10.3-- Amendment No. 2 to the Amended and Restated Management Agreement, dated as of January 1, 2001 by and among G-I Holdings Inc., Merick Inc., International Specialty Products Inc., GAF Broadcasting Company, Inc., Building Materials Corporation of America and ISP Opco Holdings Inc., as assignee of International Specialty Products Inc. (incorporated by reference to Exhibit 10.3 to International Specialty Products Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000 (the "2000 Form 10-K")).

EXHIBIT NUMBER -----	DESCRIPTIONS -----
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10.4 -- Amendment No. 3 to the Amended and Restated Management Agreement, dated as of June 27, 2001 by and among G-1 Holdings Inc., Merick Inc., International Specialty Products Inc., ISP Investco LLC, GAF Broadcasting Company, Inc., Building Materials Corporation of America and ISP Management Company, Inc., as assignee of ISP Chemco Inc. (incorporated by reference to Exhibit 10.7 to the ISP Chemco Registration Statement).

10.5 -- Amendment No. 4 to the Amended and Restated Management Agreement, dated as of January 1, 2002 by and among G-1 Holdings Inc., Merick Inc., International Specialty Products Inc., ISP Investco LLC, GAF Broadcasting Company, Inc., Building Materials Corporation of America and ISP Management Company, Inc., as assignee of ISP Chemco Inc.

10.6 -- Indemnification Agreement, dated as of October 18, 1996, among GAF Corporation, G-I Holdings Inc., ISP Holdings Inc., G Industries Corp. and GAF Fiberglass Corporation (incorporated by reference to Exhibit 10.7 to the Registration Statement on Form S-4 of ISP Holdings Inc. Registration No. 333-17827) (the "Holdings Registration Statement").

10.7 -- Tax Sharing Agreement, dated as of January 1, 1997, among ISP Holdings Inc., International Specialty Products Inc. and certain subsidiaries of International Specialty Products Inc. (incorporated by reference to Exhibit 10.8 to the Holdings Registration Statement).

10.8 -- Tax Sharing Agreement, dated as of January 1, 2001, by and among International Specialty Products Inc., International Specialty Holdings Inc. and ISP Chemco Inc. (incorporated by reference to Exhibit 10.8 to the ISP Chemco Registration Statement).

10.9 -- Non-Qualified Retirement Plan Letter Agreement (incorporated by reference to Exhibit 10.11 to the Registration Statement on Form S-1 of International Specialty Products Inc. (Registration No. 333-40351)).*

10.10-- International Specialty Products Inc. 1991 Incentive Plan for Key Employees and Directors, as amended (incorporated by reference to Exhibit 4.3 to Post-Effective Amendment No. 1 on Form S-8 to the ISP Registration Statement).*

10.11-- International Specialty Products Inc. 2000 Stock Option Plan for Non-Employee Directors (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-8 of International Specialty Products Inc. (Registration Statement No. 333-81490)).*

10.12-- International Specialty Products Inc. 2000 Long-Term Incentive Plan (incorporated by reference to Annex A to International Specialty Products Inc.'s definitive proxy statement on Schedule 14A with respect to International Specialty Products Inc.'s 2000 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on April 20, 2000).*

10.13-- Amendment No. 2 to the International Specialty Products Inc. 2000 Long-Term Incentive Plan (incorporated by reference to Annex C to International Specialty Products Inc.'s definitive proxy statement on Schedule 14A with respect to International Specialty Products Inc.'s 2001 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on April 20, 2001)*.

10.14-- Letter Agreement, dated September 29, 1999, between International Specialty Products Inc. and Sunil Kumar (incorporated by reference to Exhibit 10 to the International Specialty Products Inc.'s Quarterly Report on Form 10-Q for the fiscal quarter ended October 3, 1999).*

- 10.15-- First Amendment to Letter Agreement dated September 29, 1999 between International Specialty Products Inc. and Sunil Kumar (incorporated by reference to Exhibit 10.11 to International Specialty Products Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000).*
- 10.16-- International Specialty Products Inc. Yoss Restricted Share Plan (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-8 of International Specialty Products Inc. (Registration No. 333-52504)).*
- 10.17-- International Specialty Products Inc. Olsen Restricted Share Plan (incorporated by reference to Exhibit 4.3 to the Form S-8 of International Specialty Products Inc. (Registration No. 333-52638)).*
- 10.18-- International Specialty Products Inc. Olsen Restricted Share Plan II (incorporated by reference to Exhibit 4.3 to the Form S-8 of International Specialty Products Inc. (Registration No. 333-81486)).*
- 10.19-- International Specialty Products Inc. Kumar Restricted Share Plan (incorporated by reference to Exhibit 4.3 to the Form S-8 of International Specialty Products Inc. (Registration No. 333-81488)).*
- 10.20-- Compensation and Indemnification Agreement among Charles M. Diker, Burt Manning and International Specialty Products Inc., dated October 10, 1997 (incorporated by reference to Exhibit 10.23 to the ISP Registration Statement).*
- 10.21-- Credit Agreement, dated as of June 27, 2001, between ISP Chemco Inc., ISP Chemicals Inc., ISP Minerals Inc. and ISP Technologies Inc., as borrowers, the subsidiary guarantors party thereto, the lenders party thereto, The Chase Manhattan Bank, as administrative agent, J.P. Morgan Securities Inc., as advisor, lead arranger and bookrunner, Bear Stearns Corporate Lending Inc. and UBS Warburg LLC, as co-syndication agents, and Deutsche Bank Alex. Brown Inc. and The Bank of Nova Scotia, as co-documentation agents (incorporated by reference to Exhibit 10.1 to the ISP Chemco Registration Statement).
- 10.22-- Amendment No. 1 to Credit Agreement, dated as of July 24, 2001, by and among ISP Chemco Inc., ISP Chemicals Inc., ISP Technologies Inc. and ISP Minerals Inc., as borrowers, and The Chase Manhattan Bank, as administrative agent (incorporated by reference to Exhibit 10.2 to the ISP Chemco Registration Statement).
- 10.23-- Pledge and Security Agreement, dated as of June 27, 2001, among ISP Chemco Inc., ISP Chemicals Inc., ISP Minerals Inc. and ISP Technologies Inc., as borrowers, the subsidiary guarantors party thereto, The Chase Manhattan Bank, as administrative agent, J.P. Morgan Securities Inc., as advisor, lead arranger and bookrunner, Bear Stearns Corporate Lending Inc. and UBS Warburg LLC, as co-syndication agents, and Deutsche Bank Alex. Brown Inc. and The Bank of Nova Scotia, as co-documentation agents (incorporated by reference to Exhibit 10.3 to the ISP Chemco Registration Statement).
- 21 -- Subsidiaries of International Specialty Products Inc.
- 23 -- Consent of Arthur Andersen LLP.
- 99.1 -- Letter to commission pursuant to temporary note 3T, dated March 22, 2002.

* Management and/or compensation plan or arrangement.

INTERNATIONAL SPECIALTY PRODUCTS INC.

FORM 10-K

INDEX TO MANAGEMENT'S DISCUSSION AND ANALYSIS,
CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

PAGE

Management's Discussion and Analysis of Financial	
Condition and Results of Operations	F-2
Selected Financial Data	F-12
Report of Independent Public Accountants	F-13
Consolidated Statements of Income for the	
three years ended December 31, 2001	F-14
Consolidated Balance Sheets as of December 31, 2000 and 2001.	F-15
Consolidated Statements of Cash Flows for the three years	
ended December 31, 2001	F-16
Consolidated Statements of Stockholders' Equity	
for the three years ended December 31, 2001.....	F-18
Notes to Consolidated Financial Statements.....	F-20
Supplementary Data (Unaudited):	
Quarterly Financial Data (Unaudited)	F-47

SCHEDULES

Consolidated Financial Statement Schedules:	
Schedule II--Valuation and Qualifying Accounts	S-1

F-1

INTERNATIONAL SPECIALTY PRODUCTS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On July 15, 1998, International Specialty Products Inc., which we refer to as "Old ISP", merged with and into ISP Holdings Inc. In connection with the merger, our company, which was then known as ISP Holdings, changed its name to International Specialty Products Inc. In the merger, each outstanding share of Old ISP's common stock, other than those held by ISP Holdings, was converted into one share of our common stock, and the outstanding shares of Old ISP's common stock which were held by ISP Holdings were converted into an aggregate of 53,833,333 shares (or approximately 78%) of the outstanding shares of our common stock.

In October 1999, we sold the stock of our filter products subsidiaries (see Note 7 to Consolidated Financial Statements). Accordingly, the results of operations of the filter products subsidiaries have been classified as a "Discontinued Operation" within the Consolidated Financial Statements for the year 1999. The following discussion is on a continuing operations basis.

RESULTS OF OPERATIONS

2001 COMPARED WITH 2000

We recorded net income in 2001 of \$0.2 million compared with \$94.1 million (\$1.38 diluted earnings per share) in 2000. The lower results were attributable to investment losses in 2001 compared with significant investment income in 2000, as well as higher interest expense, partially offset by improved operating income. The results for 2001 include an after-tax charge of \$0.4 million (\$.01 diluted earnings per share) for the cumulative effect of adopting Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." Also included in the results for 2001 are a \$1.6 million gain on an insurance settlement and a \$0.5 million reversal of excess restructuring reserves established in 2000.

The results for 2000 included a \$14.4 million provision for restructuring and a \$3.5 million gain on a contract settlement. Excluding the effect of such nonrecurring items in each year, the net loss for 2001 was \$0.7 million (\$.01 diluted earnings per share) compared with net income of \$101.2 million (\$1.49 diluted earnings per share) in 2000.

Sales for 2001 were \$787.2 million compared with \$783.9 million in 2000. The increase in sales resulted from higher volumes in the Pharmaceutical and Beverage, Personal Care, and Mineral Products businesses (totaling \$33.5 million) and improved pricing and mix in the Industrial business (\$22.4 million), offset by lower volumes in the Industrial, Alginates and Fine Chemicals businesses (totaling \$45.3 million) and by the adverse effect of the stronger U.S. dollar (\$10.8 million), primarily in Europe.

Operating income for the year 2001 was \$112.6 million compared with \$81.4 million in 2000. Excluding nonrecurring items in each year, operating income for 2001 was \$110.5 million, a 15% increase compared with \$95.8 million in 2000. The improvement in operating income resulted primarily from higher volumes and favorable manufacturing costs in the Pharmaceutical and Beverage and the Fine Chemicals businesses, and improved pricing and favorable manufacturing costs in the Industrial and Mineral Products businesses. These gains were partially offset by the impact of lower volumes in the Industrial, Alginates and Performance Chemicals businesses, unfavorable manufacturing costs in the Alginates and Performance Chemicals businesses and by the adverse effect of the stronger U.S. dollar, primarily in Europe. Operating income in 2001 increased in Europe, Asia-Pacific and Latin America. Excluding the nonrecurring items in each year discussed above, operating income decreased in the U.S. by \$10.3 million in 2001.

Interest expense for 2001 was \$86.2 million, a \$5.0 million (6%) increase over the \$81.2 million recorded in 2000, with the increase due to higher average borrowings, primarily reflecting the debt financing transactions discussed below in "Liquidity and Financial Condition," partially offset by the impact of lower average interest rates.

Other income (expense), net, comprises net investment income, foreign exchange gains/losses resulting from the revaluation of foreign currency-denominated accounts receivable and payable as a result of changes in exchange rates, and other nonoperating and nonrecurring items of income and expense. Other expense, net, was \$25.4 million in 2001 compared with other income of \$141.3 million in 2000, with the decrease the result of investment losses in 2001 versus significant investment income in 2000. Investment losses in 2001 were \$9.4 million, which included a \$29.1 million write-down to fair market value of certain available-for-sale securities which were sold shortly after the balance sheet date. Investment income in 2000 was \$157.1 million and included net gains of \$127.6 million from the sale of our investments in Dexter Corporation and Life Technologies, Inc. (see Note 3 to Consolidated Financial Statements).

BUSINESS SEGMENT REVIEW

A discussion of operating results for each of our business segments follows. We operate our Specialty Chemicals business through three reportable business segments, in addition to the Mineral Products segment. See Notes 17 and 18 to Consolidated Financial Statements for additional business segment and geographic information.

PERSONAL CARE

Sales for the Personal Care business segment in 2001 were \$196.2 million compared with \$189.0 million in 2000, while operating income in 2001 was \$34.0 million compared with \$33.2 million in 2000. The 4% increase in sales resulted primarily from higher volumes (\$8.6 million), mainly in the North American and European hair care markets, reflecting strong mass market sales of hair gels and styling aids, and, to a lesser extent, favorable pricing and mix (\$1.9 million). These sales gains were partially offset by lower volumes in the North American skin care market, reflecting increased competition in the sunscreen and preservative markets, and were also impacted by the adverse effect of the stronger U.S. dollar (\$3.3 million), primarily in Europe.

The increase in operating income in 2001 was attributable to the favorable volumes and pricing and to favorable manufacturing costs, offset by an unfavorable mix, higher operating expenses and the unfavorable effect of the stronger U.S. dollar (\$2.3 million), primarily in Europe.

PHARMACEUTICAL, FOOD AND BEVERAGE ("PFB")

Sales for the PFB segment were \$234.6 million in 2001 compared with \$232.8 million in 2000. Sales for the Pharmaceutical and Beverage business increased \$14.8 million (9%), reflecting volume growth (\$14.7 million) across all regions and, to a lesser extent, favorable pricing and mix (\$3.0 million), partially offset by the impact of the stronger U.S. dollar (\$2.9 million). The sales growth in Pharmaceutical and Beverage was primarily the result of strong sales in the excipients and beverage markets, partially offset by lower sales in the oral care market. Sales for the Alginates food business decreased in 2001 by \$13.0 million (20%) due to lower volumes (\$11.8 million) and unfavorable pricing and mix (\$1.2 million) across all regions due to competitive pressures.

Operating income for the PFB segment was \$48.5 million in 2001 compared with \$48.0 million in 2000. Operating income for the Pharmaceutical and Beverage business increased 37% in 2001 due to the higher volumes and pricing and to lower manufacturing costs which reflected cost savings from lower natural gas prices. Partially offsetting these improvements was the adverse impact of the stronger U.S. dollar (\$2.2 million), primarily in Europe. Operating results for the Alginates food business decreased by \$13.0 million from 2000, resulting from the lower unit volumes, unfavorable manufacturing costs related to lower production volumes and the impact of unfavorable pricing.

PERFORMANCE CHEMICALS, FINE CHEMICALS AND INDUSTRIAL

Sales for the Performance Chemicals, Fine Chemicals and Industrial segment were \$275.7 million for 2001, a decrease of \$14.5 million (5%) compared with \$290.2 million in 2000, while operating income increased to \$18.5 million in 2001 compared with \$4.4 million in 2000. Although all three businesses experienced sales declines in 2001, the decrease in sales was principally attributable to 8% lower Industrial sales.

Sales for the Performance Chemicals business decreased by \$0.6 million (1%) in 2001. The decline in sales resulted from the adverse impact of the stronger U.S. dollar in Europe (\$1.4 million) and slightly lower volumes (\$0.3 million) in the specialty coatings and adhesives market, offset by favorable pricing and mix (\$1.1 million). Operating results for the Performance Chemicals business decreased by \$8.0 million in 2001 due mainly to an unfavorable product mix and higher manufacturing costs and, to a lesser extent, the impact of the lower volumes and the stronger U.S. dollar (\$0.9 million).

Sales for the Fine Chemicals business decreased \$0.7 million (1.5%) in 2001, while operating income increased \$4.4 million. The lower sales reflected lower volumes related to contract sales to Polaroid, offset by sales of \$2.2 million from the FineTech business, which was acquired in the second quarter of 2001 (see Note 9 to Consolidated Financial Statements), and by volume increases from other fine chemicals products. The higher operating income for Fine Chemicals in 2001 resulted from a significantly improved gross margin due to favorable manufacturing costs, and the favorable impact of the FineTech acquisition, partially offset by increased operating expenses. The gross margin in 2000 for Fine Chemicals was adversely impacted by higher energy costs and lower plant utilization.

Sales for the Industrial business decreased by \$13.3 million (8%) in 2001, with the decrease resulting from lower volumes (\$32.5 million) and the adverse impact of the stronger U.S. dollar in Europe (\$3.1 million), partially offset by improved pricing and mix (\$22.4 million). Operating income for the Industrial business improved by \$17.7 million in 2001, resulting from the improved pricing and favorable manufacturing costs, reflecting favorable methanol and raw material pricing, partially offset by the unfavorable volumes and the impact of the stronger U.S. dollar.

MINERAL PRODUCTS

Sales for the Mineral Products segment in 2001 were \$80.7 million, an \$8.8 million (12%) increase compared with sales of \$71.9 million in 2000, while operating income increased \$1.3 million (14%) to \$10.7 million in 2001. The higher sales resulted from a \$4.7 million (38%) increase in third party sales and a \$4.1 million (7%) increase in sales to Building Materials Corporation of America, an affiliate. The higher operating profits in 2001 reflected the improved volume and favorable manufacturing efficiencies, partially offset by higher natural gas prices and higher operating expenses due mainly to an increased provision for doubtful accounts.

RESULTS OF OPERATIONS

2000 COMPARED WITH 1999

We recorded income from continuing operations in 2000 of \$94.1 million (\$1.38 diluted earnings per share) compared with \$49.6 million (\$.72 diluted earnings per share) in 1999. Including income from a discontinued operation of \$25.3 million, which reflected an after-tax gain of \$23.5 million from the sale of filter products, net income in 1999 was \$74.9 million (\$1.09 diluted earnings per share).

The results for 2000 included a \$14.4 million provision for restructuring and a \$3.5 million gain on a contract settlement, while the results for 1999 included an \$8.5 million pre-tax gain from the sale of our pearlescent pigments business, a non-core product line. Also in 1999, we reversed previously recorded restructuring reserves in the amount of \$1.9 million and established a staff reduction program for which a pre-tax provision for severance of \$2.3 million was recorded (see Note 4 to Consolidated Financial Statements). Excluding the effect of such nonrecurring items in each period, income from continuing operations for 2000 was \$101.2 million (\$1.49 diluted earnings per share) compared with \$44.4 million (\$.65 diluted earnings per share) in 1999. On a comparable basis, the higher income from continuing operations in 2000 was attributable to higher investment income, partially offset by lower operating income and higher interest expense.

Sales for 2000 were \$783.9 million compared with \$787.4 million in 1999. The decrease in sales was primarily attributable to lower volumes in the Fine Chemicals, Mineral Products and Performance Chemicals businesses (totaling \$50.1 million), the adverse effect of the stronger U.S. dollar (\$27.5 million), principally in Europe, and to lower pricing and mix in the Industrial business (\$20.0 million), partially offset by the full year's

contribution to sales by the Alginates business (\$66.5 million) acquired in October 1999 (see Note 9 to Consolidated Financial Statements) and by improved volumes in the Pharmaceutical and Beverage business and the Personal Care segment (totaling \$19.8 million). Sales in 2000 reflected 13% and 23% higher sales in the Asia-Pacific and Latin America regions, respectively, offset by lower sales in the U.S. and Europe.

Operating income was \$81.4 million in 2000 compared with \$146.0 million in 1999. Excluding nonrecurring items in each year, operating income for 2000 was \$95.8 million compared with \$137.8 million in 1999. The decrease in 2000 was attributable to lower pricing in the Industrial business, the adverse effect of the stronger U.S. dollar in Europe, higher raw material and energy costs which lowered gross margins, and lower volumes in Fine Chemicals, Mineral Products and Performance Chemicals, partially offset by the full year's contribution to operating income of the Alginates business. Operating income in 2000 decreased in the U.S. and Europe, due to the factors discussed above, while the Asia-Pacific and Latin America regions experienced a 50% and 14%, respectively, growth in operating income in 2000 over 1999.

Interest expense for 2000 was \$81.2 million, a \$2.6 million (3%) increase over the \$78.6 million recorded in 1999, with the increase due primarily to higher average interest rates, partially offset by lower average borrowings.

Other income, net, was \$141.3 million in 2000 versus \$9.0 million in 1999, with the increase the result of higher investment income, reflecting net gains in 2000 of \$127.6 million from the sale of our investments in Dexter Corporation and Life Technologies, Inc. (see Note 3 to Consolidated Financial Statements). Our total gain related to these investments prior to and in 1999 and 2000 was approximately \$150 million prior to expenses.

BUSINESS SEGMENT REVIEW

A discussion of operating results for each of our business segments follows. We operate our Specialty Chemicals business through three reportable business segments, in addition to the Mineral Products segment. See Notes 17 and 18 to Consolidated Financial Statements for additional business segment and geographic information.

PERSONAL CARE

Sales for the Personal Care segment in 2000 were \$189.0 million compared with \$187.1 million in 1999, while operating income in 2000 was \$33.2 million compared with \$47.1 million in 1999, which included an \$8.5 million pre-tax gain on the sale of the pearlescent pigments business, a non-core product line. The sales increase reflected higher volumes (\$10.3 million), mainly in hair care products, partially offset by the adverse effect of the stronger U.S. dollar in Europe (\$5.9 million) and lower average pricing in both hair care and skin care.

Operating income, excluding the gain in 1999 on the sale of the pearlescent pigments business, decreased by \$5.4 million in 2000 to \$33.2 million, as the impact of volume increases was offset by higher manufacturing and operating expenses, the adverse effect of the stronger U.S. dollar in Europe (\$4.8 million) and lower average pricing.

PHARMACEUTICAL, FOOD AND BEVERAGE ("PFB")

Sales for the PFB segment were \$232.8 million in 2000 compared with \$177.3 million in 1999, principally reflecting a full year's contribution to sales from the Alginates business (\$66.5 million), compared with \$12.8 million in 1999 after the date of its acquisition in October 1999. Sales for the Pharmaceutical and Beverage business increased \$1.8 million, reflecting volume growth across all regions (\$9.6 million), partially offset by the impact of the stronger U.S. dollar (\$6.5 million). The sales growth was primarily the result of strong sales in the oral care and excipients markets, partially offset by lower sales in the Beverage business.

Operating income for the PFB segment was \$48.0 million in 2000, an 18% improvement compared with \$40.7 million in 1999, with the increase resulting from the full year's contribution from the Alginates business. Operating income for the Pharmaceutical and Beverage business decreased 9% in 2000 as the impact of favorable volumes was offset by the adverse impact of the stronger U.S. dollar in Europe (\$5.2 million) and higher operating expenses.

PERFORMANCE CHEMICALS, FINE CHEMICALS AND INDUSTRIAL

Sales for the Performance Chemicals, Fine Chemicals and Industrial segment were \$290.2 million for 2000, a decrease of \$45.5 million (14%) compared with \$335.7 million in 1999, while operating income declined to \$4.4 million in 2000 compared with \$44.0 million in 1999. Although all three businesses experienced significant sales declines in 2000, the decrease in sales was primarily attributable to 34% lower Fine Chemicals sales.

Sales for the Performance Chemicals business decreased by \$12.3 million (13%) in 2000. The primary factors for the decline in sales were lower volumes (\$9.2 million), mainly in Europe and North America in PVP polymers in the household, industrial and institutional markets, in addition to the adverse impact of the stronger U.S. dollar in Europe (\$3.0 million). Operating income for the Performance Chemicals business decreased by \$6.3 million (46%) in 2000 due to the volume shortfalls and the stronger dollar (\$2.4 million), partially offset by an improved gross margin due to favorable manufacturing costs.

Sales for the Fine Chemicals business decreased \$23.9 million (34%) in 2000, while operating income decreased \$19.1 million (85%). The Fine Chemicals business was significantly impacted by the expiration of a substantial custom manufacturing agreement at the end of 1999. Sales related to this agreement contributed \$32.2 million of sales and \$17.4 million of gross margin in 1999. Higher sales volumes of other fine chemicals products partially offset the impact of this contract termination. The lower operating income in 2000 was also impacted by higher energy costs and lower plant utilization.

Sales for the Industrial business decreased by \$9.3 million in 2000, with the decrease resulting from unfavorable selling prices and mix (\$20.0 million) and the adverse impact of the stronger U.S. dollar in Europe (\$12.1 million), partially offset by volume increases (\$22.8 million) in Europe and Asia-Pacific. As a result of the unfavorable pricing and the impact of the stronger dollar (\$3.1 million), operating results for the Industrial business decreased by \$14.4 million in 2000.

MINERAL PRODUCTS

Sales for the Mineral Products segment in 2000 were \$71.9 million, a \$15.4 million (18%) decrease compared with sales of \$87.3 million in 1999, while operating income decreased \$6.7 million (42%) to \$9.4 million in 2000. The lower sales and operating income resulted from substantially lower third party sales, resulting from the loss of two major trade customers for colored roofing granules in the fourth quarter of 1999, which together accounted for approximately 68% of Mineral Products third party sales and approximately 23% of total Mineral Products sales in 1999. The loss of these customers adversely impacted the year 2000 sales by \$19.3 million. Operating income in 2000 was also impacted by higher energy costs.

LIQUIDITY AND FINANCIAL CONDITION

During 2001, our net cash flow before financing activities was \$68.2 million, including \$254.3 million of cash generated from operations, the reinvestment of \$101.4 million for capital programs and the acquisitions of the FineTech business and the industrial biocides business of Degussa Corporation (see Note 9 to Consolidated Financial Statements), and the use of \$84.7 million of cash for net purchases of available-for-sale securities and other short-term investments.

Cash from operations for 2001 reflected a \$186.6 million cash flow from net sales of trading securities. Excluding this cash flow, cash provided from operations for 2001 totaled \$67.5 million. Cash from operations also reflects non-cash charges of \$44.2 million from unrealized losses on securities in 2001 (see Note 3 to Consolidated Financial Statements). Cash invested in additional working capital totaled \$48.1 million, primarily reflecting a \$34.5 million increase in inventories, due mainly to higher production levels, and a \$16.5 million decrease in payables and accrued liabilities.

Net cash used in financing activities in 2001 totaled \$6.4 million, reflecting the debt financing transactions discussed below, financing fees and expenses of \$20.5 million related to the financing transactions, repayments of long-term debt totaling \$246.0 million, a \$143.5 million decrease in short-term borrowings and a \$100.8 million decrease in borrowings under our revolving credit agreement. In addition, financing activities included a \$17.6

million cash outlay for repurchases of 1,937,800 shares of our common stock pursuant to our repurchase program. At December 31, 2001, 949,062 shares of common stock remained available for purchase under our repurchase program. The repurchased shares will be held for general purposes, including the issuance of shares under our stock option plan and for individual restricted stock plans.

On June 27, 2001, ISP Chemco, our indirect wholly owned subsidiary, and three of its wholly owned subsidiaries jointly issued \$205.0 million aggregate principal amount of 10 1/4% Senior Subordinated Notes due 2011, which we refer to as the "2011 Notes." The net proceeds of \$197.3 million, after discount and fees, were placed in a restricted cash escrow account and used to retire our 9 3/4% Senior Notes due 2002, which we refer to as the "2002 Notes." During the third quarter of 2001, we retired \$19.9 million of the 2002 Notes, and the remaining \$180.0 million of the 2002 Notes were retired on or prior to October 15, 2001. On July 31, 2001, ISP Chemco and those same three wholly owned subsidiaries jointly issued an additional \$100.0 million aggregate principal amount of the 2011 Notes. These notes have the same terms as the 2011 Notes issued in June 2001. The net proceeds were \$98.9 million, including \$0.9 million of accrued interest from June 27, 2001 to the date of issuance, of which \$98.0 million were placed in a restricted cash escrow account and used to retire a portion of our 9% Senior Notes due 2003, which we refer to as the "2003 Notes." On November 13, 2001, ISP Chemco and those same three wholly owned subsidiaries jointly issued an additional \$100.0 million aggregate principal amount of the 2011 Notes. These notes have the same terms as the 2011 Notes issued in June 2001, except with respect to interest accrual and registration rights. The net proceeds of \$101.0 million were placed in a restricted cash escrow account and used to retire a portion of the 2003 Notes. We retired \$16.9 million aggregate principal amount of the 2003 Notes in 2001 and redeemed the remaining \$307.9 million aggregate principal amount of the 2003 Notes on January 14, 2002. We will record an after-tax extraordinary charge of \$4.7 million in the first quarter of 2002 in connection with this redemption.

The 2011 Notes are guaranteed by substantially all of ISP Chemco's domestic subsidiaries. The 2011 Notes were issued under an indenture which, among other things, limits the ability of ISP Chemco and its subsidiaries, except our accounts receivable subsidiary and certain immaterial subsidiaries, to incur additional debt, issue preferred stock, incur liens, and pay dividends or make certain other restricted payments and restricted investments.

In a related transaction, ISP Chemco and those same three subsidiaries which issued the 2011 Notes also entered into \$450.0 million of new senior secured credit facilities, which we refer to as the "Senior Credit Facilities," the initial borrowings under which were used to repay amounts outstanding under our previous credit facility. The Senior Credit Facilities are comprised of a \$225.0 million term loan with a maturity of seven years and a \$225.0 million revolving credit facility which will terminate in five years. The revolving credit facility includes a borrowing capacity not in excess of \$50.0 million for letters of credit. All borrowings under the Senior Credit Facilities are based on either an alternate base rate (based on the banks' base rate or on the federal funds rate) or on the eurodollar rate plus a margin based on the ratio of ISP Chemco's total consolidated debt to EBITDA (as defined in the Senior Credit Facilities). The average interest rate at December 31, 2001 on borrowings under the Senior Credit Facilities was 5.3%. The Senior Credit Facilities require compliance with various financial covenants, including a total debt leverage maintenance ratio, a senior debt leverage maintenance ratio, an interest coverage ratio and a minimum adjusted net worth. As of December 31, 2001, \$95.3 million of borrowings and \$5.6 million of letters of credit were outstanding under the revolving credit facility. In addition, the Senior Credit Facilities limit the ability of ISP Chemco and its subsidiaries, except its accounts receivable subsidiary and certain immaterial subsidiaries, to incur additional debt, issue preferred stock, incur liens, and pay dividends or make certain other restricted payments and restricted investments. ISP Chemco and substantially all of its domestic subsidiaries are designated as obligors under the Senior Credit Facilities. The obligations of the obligors under the Senior Credit Facilities are secured by a first-priority security interest in 100% of the capital stock of ISP Chemco's domestic subsidiaries and 66% of the capital stock of some of ISP Chemco's foreign subsidiaries, and substantially all of the real and personal property of the obligors, except for our accounts receivable subsidiary and certain immaterial subsidiaries.

On December 13, 2001, our wholly owned subsidiary, International Specialty Holdings, issued \$200.0 million principal amount of 10 5/8% Senior Secured Notes due 2009, which we refer to as the "2009 Notes." The net proceeds

from this issuance were approximately \$194.3 million, of which \$125.7 million were placed in a restricted cash escrow account and used to redeem the remaining 2003 Notes on January 14, 2002. The 2009 Notes are secured by a first priority lien on all of the outstanding capital stock of ISP Chemco. The 2009 Notes are structurally subordinated to all liabilities of International Specialty Holdings' subsidiaries. The 2009 Notes were issued under an indenture which, among other things, limits the ability of International Specialty Holdings and its subsidiaries, except unrestricted subsidiaries, to incur additional debt, issue preferred stock, incur liens, and pay dividends or make certain other restricted payments and restricted investments. ISP Investco, a wholly owned subsidiary of International Specialty Holdings, its subsidiaries, our accounts receivable subsidiary and certain immaterial subsidiaries have been designated as unrestricted subsidiaries under the indenture related to the 2009 Notes.

As a result of the foregoing factors, cash and cash equivalents increased by \$61.3 million during 2001 to \$79.5 million, excluding \$296.0 million of trading and available-for-sale securities and other short-term investments.

As of December 31, 2001, our current maturities of long-term debt, scheduled to be repaid during 2002, totaled \$310.3 million, including the remaining \$307.9 million outstanding amount of the 2003 Notes as of December 31, 2001, which were redeemed on January 14, 2002.

Borrowings by our subsidiaries are subject to the application of certain financial covenants contained in the Senior Credit Facilities and in the indentures governing the 2009 and 2011 Notes. As of December 31, 2001, our subsidiaries were in compliance with those covenants, and the application of those covenants would not have restricted available borrowings under the Senior Credit Facilities. See Note 13 to Consolidated Financial Statements.

The Senior Credit Facilities and the indentures governing the 2009 and 2011 Notes contain additional affirmative and negative covenants affecting some of our subsidiaries, including restrictions on transactions with affiliates, sale-leaseback transactions, mergers and transfers of all or substantially all of those subsidiaries' assets. Additionally, in the event the holders of the 2009 Notes were to foreclose on ISP Chemco's capital stock following an event of default under those notes, the sale of the capital stock would constitute a change of control of ISP Chemco. Under the indenture governing the 2011 Notes, if a change of control of ISP Chemco occurs, ISP Chemco is obligated to make an offer to repurchase the 2011 Notes from their respective holders. The terms of the Senior Credit Facilities, however, prohibit the repayment of the 2011 Notes in that event, unless and until such time as the indebtedness under the Senior Credit Facilities is repaid in full. Failure to make such repayment upon a change of control would result in a default under the 2011 Notes. A change of control of ISP Chemco would also result in a default under the Senior Credit Facilities. In the event of a default under the indenture governing the 2011 Notes or under the Senior Credit Facilities, the holders of the 2011 Notes or the lenders under the Senior Credit Facilities, as the case may be, could elect to accelerate the maturity of all the 2011 Notes or the loans under the Senior Credit Facilities. Those events could have a material adverse effect on our financial condition and results of operations.

Subject to restrictions in our Senior Credit Facilities and the indentures governing the 2009 and 2011 Notes, our subsidiaries may incur additional debt for working capital, capital expenditures, acquisitions and other purposes.

"Other assets" on the Consolidated Balance Sheets increased in 2001 by \$45.7 million to \$77.6 million, primarily reflecting deferred financing fees of \$20.5 million related to the financing transactions discussed above and \$15.8 million of intangible assets related to the acquisitions of the FineTech business and the biocides business of Degussa Corporation (see Note 9 to Consolidated Financial Statements). In addition, "Other assets" and "Other liabilities" increased by \$9.0 million each due to a gross-up of environmental insurance receivables and liabilities to reflect current estimated liabilities and insurance recoveries (see Note 19 to Consolidated Financial Statements). "Other liabilities" increased in 2001 by \$11.0 million to \$72.7 million and also reflected a \$3.8 million accrual related to our Long Term Incentive Plan (see Note 15 to Consolidated Financial Statements).

Capital expenditures are expected to be approximately \$57.0 million in 2002, primarily for maintenance and compliance expenditures.

In the fourth quarter of 2001, the economic turmoil in Argentina, which resulted in the devaluation of the Argentinian currency, adversely impacted our pre-tax earnings by \$0.8 million. While payments from our subsidiary in Argentina to our domestic operations may be adversely affected by current banking regulations in

Argentina, we do not believe that this situation will have a material impact on our liquidity, cash flows or results of operations. Sales by our subsidiary in Argentina were approximately \$3.0 million in 2001.

For information with respect to income taxes, see Note 8 to Consolidated Financial Statements.

We do not believe that inflation has had an effect on our results of operations during the past three years. However, there can be no assurance that our business will not be affected by inflation in the future.

We have received site designation for the construction of a hazardous waste treatment, storage and disposal facility at our Linden, New Jersey property and have received approval from the New Jersey Turnpike Authority for a direct access ramp extension from the New Jersey Turnpike to the site. If we are successful in securing the necessary permits to construct and operate the hazardous waste facility and decide to proceed with this project, we would develop and operate the facility in a separate subsidiary, either on its own or in a joint venture with a suitable partner. We estimate that the cost of constructing the facility will be approximately \$100 million and, if approved, the facility is anticipated to be in operation three years after commencement of construction. We anticipate utilizing internally generated cash and/or seeking project or other independent financing for this project. Accordingly, we would not expect such facility to impact materially our liquidity or capital resources. We are also investigating other development opportunities at this site consistent with a plan by the County of Union to re-develop the Tremley Point area of Linden. We expect that related planning and evaluation efforts will continue through 2002.

We, together with other companies, are a party to a variety of proceedings and lawsuits involving environmental matters. See Note 19 to Consolidated Financial Statements for further information.

MARKET-SENSITIVE INSTRUMENTS AND RISK MANAGEMENT

Our investment strategy is to seek returns in excess of money market rates on our available cash while minimizing market risks. There can be no assurance that we will be successful in implementing such a strategy. We invest primarily in international and domestic arbitrage and securities of companies involved in acquisition or reorganization transactions, including at times, common stock short positions which are offsets against long positions in securities which are expected, under certain circumstances, to be exchanged or converted into the short positions. From time to time, we invest in securities of companies that we consider undervalued. With respect to our equity positions, we are exposed to the risk of market loss. See Notes 2 and 3 to Consolidated Financial Statements.

We enter into financial instruments in the ordinary course of business in order to manage our exposure to market fluctuations in interest rates, foreign currency rates and on our short-term investments. The financial instruments we employ to reduce market risk include swaps, forwards and other hedging instruments. The financial instruments are subject to strict internal controls and their use is primarily confined to the hedging of our debt, foreign currency exposure and short-term investment portfolio. The counterparties to these financial instruments are major financial institutions with high credit standings. The amounts subject to credit risk are generally limited to the amounts, if any, by which the counterparties' obligations exceed our obligations. We control credit risk through credit approvals, limits and monitoring procedures. We do not anticipate nonperformance by counterparties to these instruments.

	DECEMBER 31, 2000		DECEMBER 31, 2001	
	-----		-----	
	(MILLIONS)			
	NOTIONAL	FAIR	NOTIONAL	FAIR
	AMOUNT	VALUE	AMOUNT	VALUE
	-----	-----	-----	-----
Interest rate financial instruments	\$100.0	\$ (0.8)	\$100.0	\$ (3.1)
Foreign currency financial instruments	\$ 20.9	\$ 0	\$ 17.7	\$ 0
Equity-related financial instruments	\$ 40.1	\$ 0	\$ 20.7	\$ 0

All of the financial instruments in the above table have a maturity of less than one year.

We enter into forward foreign exchange instruments in order to hedge a portion of both our borrowings denominated in foreign currency and transactions related to the operations of our foreign subsidiaries. Forward contract agreements require us and the counterparty to exchange fixed amounts of U.S. dollars for fixed amounts

of foreign currency on specified dates. All forward contracts are in major currencies with highly liquid markets and mature within one year. Hedging strategies are approved by senior management before they are implemented.

As of December 31, 2000 and 2001, the U.S. dollar equivalent notional value of outstanding forward foreign exchange contracts was \$20.9 and \$17.7 million, respectively. The U.S. dollar equivalent notional value of foreign exchange contracts outstanding as of December 31, 2000 and 2001, which were entered into as a hedge of intercompany loans, was \$17.0 and \$17.7 million, respectively, representing 100% of our foreign currency exposure with respect to such loans.

We enter into equity-related financial instruments as a means to manage our exposure to market fluctuations on our short-term investments. As of December 31, 2001, the value of equity-related long contracts was \$13.5 million, and the value of equity-related short contracts was \$7.2 million, both of which are marked-to-market each month, with unrealized gains and losses included in the results of operations. As such, there is no economic cost at December 31, 2001 to terminate these instruments and therefore the fair market value is zero.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 established accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in a derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement.

We adopted SFAS No. 133 as of January 1, 2001. Accounting for interest rate swaps and foreign exchange forward contracts held by us is affected by implementation of this standard. The earnings impact of the transition adjustments related to the initial adoption of the standard was an after-tax loss of \$0.4 million, which was recorded in the first quarter of 2001 as the cumulative effect of a change in accounting principle.

The Senior Credit Facilities include a \$225.0 million term loan. We have designated interest rate swaps, with a total notional amount of \$100 million, as a hedge of our exposure to changes in the eurodollar rate under the term loan. The interest rate swaps are structured to receive interest based on the eurodollar rate and pay interest on a fixed rate basis. A cash flow hedging relationship has been established whereby the interest rate swaps hedge the risk of changes in the eurodollar rate related to borrowings against the term loan. The interest rate swaps hedge exposure to changes in the eurodollar rate through July 2002.

On June 30, 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting and eliminates the pooling method of accounting. SFAS No. 141 will not have an impact on our business since we have historically accounted for all business combinations using the purchase method of accounting. With the adoption of SFAS No. 142, goodwill will no longer be subject to amortization over its estimated useful life. However, goodwill will be subject to at least an annual assessment for impairment and more frequently if circumstances indicate a possible impairment. Companies must perform a fair-value-based goodwill impairment test. In addition, under SFAS No. 142, an acquired intangible asset should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged. Intangible assets will be amortized over their useful lives. SFAS No. 142 is effective as of January 1, 2002. On an annualized basis, our net income will increase by approximately \$16.6 million, unless any impairment charges are necessary.

* * *

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934. These forward-looking statements are only predictions and generally can be identified by use of statements that

include phrases such as "believe," "expect," "anticipate," "intend," "plan," "foresee" or other words or phrases of similar import. Similarly, statements that describe our objectives, plans or goals also are forward-looking statements. Our operations are subject to certain risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. The forward-looking statements included herein are made only as of the date of this Annual Report on Form 10-K and we undertake no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances. No assurances can be given that projected results or events will be achieved.

INTERNATIONAL SPECIALTY PRODUCTS INC.

SELECTED FINANCIAL DATA

Set forth below are our selected consolidated financial data. On July 15, 1998, Old ISP merged with and into ISP Holdings. In connection with the merger, ISP Holdings changed its name to International Specialty Products Inc. The financial information presented herein for periods prior to the merger of Old ISP and ISP Holdings represent the results of the former ISP Holdings. In October 1999, we sold the stock of our filter products subsidiaries (see Note 7 to Consolidated Financial Statements). Accordingly, the results of operations and assets and liabilities of the filter products subsidiaries have been classified as a "Discontinued Operation" within the Selected Financial Data below for all periods presented prior to 2000.

	YEAR ENDED DECEMBER 31,				
	1997	1998	1999	2000	2001
	(THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
OPERATING DATA:					
Net Sales	\$ 708,971	\$ 784,616	\$ 787,356	\$ 783,941	\$ 787,216
Gross profit	295,199	321,105	304,959	269,054	286,379
Operating income	137,689	66,177	145,978	81,353	112,589
Interest expense	73,612	75,564	78,552	81,166	86,198
Income from continuing operations before income taxes	104,219	27,168	76,454	144,975	957
Income from continuing operations before cumulative effect of change in accounting principle	51,702	2,779	49,632	94,106	607
Net income	54,005	4,812	74,930	94,106	167
Income from continuing operations per common share:					
Basic	\$.96	\$.05	\$.72	\$ 1.38	\$ --
Diluted	\$.96	\$.05	\$.72	\$ 1.38	\$ --
OTHER DATA:					
Depreciation	\$ 41,236	\$ 49,272	\$ 48,590	\$ 51,293	\$ 53,120
Amortization of goodwill and intangibles	13,294	15,025	16,344	16,192	17,229
Capital expenditures and acquisitions	67,674	163,850	108,955	58,382	101,375
	DECEMBER 31,				
	1997	1998	1999	2000	2001
	(THOUSANDS)				
BALANCE SHEET DATA:					
Total working capital	\$ 322,080	\$ 406,654	\$ 438,083	\$ 339,751	\$ 564,516
Total assets	1,483,977	1,763,870	1,835,308	1,960,284	2,172,568
Long-term debt less current maturities	798,762	896,095	820,141	524,780	919,557
Stockholders' equity	261,841	501,723	587,261	691,335	604,057

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To International Specialty Products Inc.:

We have audited the accompanying consolidated balance sheets of International Specialty Products Inc. (a Delaware corporation) and subsidiaries as of December 31, 2000 and 2001, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, appearing on pages F-14 to F-46 of this Form 10-K, present fairly, in all material respects, the financial position of International Specialty Products Inc. and subsidiaries as of December 31, 2000 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule appearing on page S-1 of this Form 10-K is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Roseland, New Jersey
February 27, 2002

INTERNATIONAL SPECIALTY PRODUCTS INC.

CONSOLIDATED STATEMENTS OF INCOME

	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
	(THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Net sales	\$ 787,356	\$ 783,941	\$ 787,216
Cost of products sold	(482,397)	(514,887)	(500,837)
Selling, general and administrative	(150,768)	(157,080)	(158,632)
(Provision) benefit for restructuring	(410)	(14,429)	471
Gain on insurance settlement	--	--	1,600
Gain on sale of assets	8,541	--	--
Amortization of goodwill and intangibles	(16,344)	(16,192)	(17,229)
Operating income	145,978	81,353	112,589
Interest expense	(78,552)	(81,166)	(86,198)
Gain on contract settlement	--	3,450	--
Other income (expense), net	9,028	141,338	(25,434)
Income from continuing operations before income taxes	76,454	144,975	957
Income taxes	(26,822)	(50,869)	(350)
Income from continuing operations	49,632	94,106	607
Discontinued operation:			
Income from discontinued operation, net of income taxes	1,769	--	--
Gain on sale of discontinued operation, net of income taxes of \$12,725	23,529	--	--
Income from discontinued operation	25,298	--	--
Income before cumulative effect of change in accounting principle ...	74,930	94,106	607
Cumulative effect of change in accounting principle, net of income tax benefit of \$216	--	--	(440)
Net income	\$ 74,930	\$ 94,106	\$ 167
Earnings per common share:			
Basic:			
Income from continuing operations	\$.72	\$ 1.38	\$.01
Income from discontinued operation .....	.37	--	--
Cumulative effect of accounting change	--	--	(.01)
Net income	\$ 1.09	\$ 1.38	\$ --
Diluted:			
Income from continuing operations	\$.72	\$ 1.38	\$.01
Income from discontinued operation .....	.37	--	--
Cumulative effect of accounting change	--	--	(.01)
Net income	\$ 1.09	\$ 1.38	\$ --
Weighted average number of common and common equivalent shares outstanding:			
Basic	68,536	68,096	65,772
Diluted	68,685	68,096	65,853

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

INTERNATIONAL SPECIALTY PRODUCTS INC.

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	2000	2001
	(THOUSANDS)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 18,181	\$ 79,509
Investments in trading securities	303,103	54,437
Investments in available-for-sale securities	222,327	239,273
Other short-term investments	19,129	2,299
Restricted cash	--	307,866
Accounts receivable, trade, less reserve of \$4,911 and \$5,472	89,173	86,574
Accounts receivable, other	19,596	20,357
Receivable from related parties, net	11,624	9,009
Inventories	150,948	190,582
Other current assets	36,928	41,564
Total Current Assets	871,009	1,031,470
Property, plant and equipment, net	562,973	560,844
Excess of cost over net assets of businesses acquired, net of accumulated amortization of \$165,880 and \$182,526	494,386	502,607
Other assets	31,916	77,647
Total Assets	\$ 1,960,284	\$ 2,172,568
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	\$ 143,682	\$ 143
Current maturities of long-term debt	224,419	310,265
Accounts payable	58,238	49,088
Accrued liabilities	91,309	97,659
Income taxes	13,610	9,799
Total Current Liabilities	531,258	466,954
Long-term debt less current maturities	524,780	919,557
Deferred income taxes	151,181	109,297
Other liabilities	61,730	72,703
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, \$.01 par value per share; 20,000,000 shares authorized: no shares issued	--	--
Common stock, \$.01 par value per share; 300,000,000 shares authorized: 69,546,456 shares issued	695	695
Additional paid-in capital	485,629	487,156
Unearned compensation-- restricted stock awards	(1,287)	(1,166)
Treasury stock, at cost-- 3,135,192 and 4,831,939 shares	(19,631)	(35,621)
Retained earnings	213,928	214,095
Accumulated other comprehensive income (loss)	12,001	(61,102)
Total Stockholders' Equity	691,335	604,057
Total Liabilities and Stockholders' Equity	\$ 1,960,284	\$ 2,172,568
	=====	=====

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

INTERNATIONAL SPECIALTY PRODUCTS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
		(THOUSANDS)	
Cash and cash equivalents, beginning of year	\$ 23,130	\$ 23,309	\$ 18,181
Cash provided by (used in) operating activities:			
Net income	74,930	94,106	167
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of change in accounting principle	--	--	440
Income from discontinued operation	(25,298)	--	--
Gain on sale of assets	(8,541)	--	--
Provision (benefit) for restructuring	410	14,429	(471)
Depreciation	48,590	51,293	53,120
Amortization of goodwill and intangibles	16,344	16,192	17,229
Deferred income taxes	6,064	26,652	(8,738)
Unrealized (gains) losses on securities and other short-term investments	(6,778)	(7,293)	44,239
Increase in working capital items	(11,851)	(4,087)	(48,073)
Purchases of trading securities	(209,649)	(528,862)	(509,914)
Proceeds from sales of trading securities	225,291	395,434	696,513
Proceeds (repayments) from sale of accounts receivable	5,558	(2,485)	(423)
(Increase) decrease in other assets	(513)	5,807	1,437
Increase (decrease) in other liabilities	503	115	(1,494)
Other decreases in property, plant and equipment	5,875	10,746	6,724
(Increase) decrease in receivable from related parties	(9,132)	2,600	2,615
Change in cumulative translation adjustment	(18,035)	(8,268)	(5,180)
Other, net	1,386	5,276	6,100
Net cash provided by continuing operations	95,154	71,655	254,291
Net cash provided by discontinued operation	5,293	--	--
Net cash provided by operating activities	100,447	71,655	254,291
Cash provided by (used in) investing activities:			
Capital expenditures and acquisitions	(108,955)	(58,382)	(101,375)
Proceeds from sale of assets	11,533	--	--
Proceeds from sale of discontinued operation	62,000	--	--
Purchases of available-for-sale securities	(432,782)	(479,401)	(309,469)
Purchases of held-to-maturity securities	(3,459)	--	--
Purchases of other short-term investments	(5,600)	--	--
Proceeds from sales of available-for-sale securities	395,659	495,096	212,006
Proceeds from held-to-maturity securities	15,746	--	--
Proceeds from sales of other short-term investments	14,716	27,795	12,765
Net cash used in investing activities	(51,142)	(14,892)	(186,073)
Cash provided by (used in) financing activities:			
Increase (decrease) in short-term debt	(6,866)	62,483	(143,539)
Proceeds from issuance of debt	--	--	828,332
Increase (decrease) in borrowings under revolving credit facility	162,400	(99,000)	(100,750)
Repayments of long-term debt	(200,378)	(10,615)	(245,982)
Increase in restricted cash	--	--	(307,866)
Financing fees and expenses	--	--	(20,470)
Repurchases of common stock	(4,987)	(15,458)	(17,610)
Other, net	2,037	557	1,491
Net cash used in financing activities	(47,794)	(62,033)	(6,394)
Effect of exchange rate changes on cash	(1,332)	142	(496)
Net change in cash and cash equivalents	179	(5,128)	61,328
Cash and cash equivalents, end of year	\$ 23,309	\$ 18,181	\$ 79,509
	=====	=====	=====

INTERNATIONAL SPECIALTY PRODUCTS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS -- (CONTINUED)

	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
	(THOUSANDS)		
Supplemental Cash Flow Information:			
Effect on cash from (increase) decrease in working capital items*:			
Accounts receivable	\$ (17,276)	\$ (279)	\$ 3,262
Inventories	7,627	(4,459)	(34,466)
Other current assets	156	279	(336)
Accounts payable	3,972	(5,614)	(9,385)
Accrued liabilities	(1,616)	(1,761)	(3,341)
Income taxes	(4,714)	7,747	(3,807)
Net effect on cash from increase in working capital items	\$ (11,851)	\$ (4,087)	\$ (48,073)
Cash paid during the period for:			
Interest (net of amount capitalized)	\$ 83,948	\$ 80,338	\$ 71,132
Income taxes paid	23,957	15,289	13,130
Acquisition of Kelco Alginates business, net of \$269 cash acquired:			
Fair market value of assets acquired	\$ 41,619		
Purchase price of acquisition**	39,731		
Liabilities assumed	\$ 1,888		
Acquisition of FineTech Ltd.:			
Fair market value of assets acquired			\$ 26,575
Purchase price of acquisition			22,450
Liabilities assumed			\$ 4,125
Acquisition of industrial biocides business:			
Fair market value of assets acquired			\$ 25,879
Purchase price of acquisition			25,879
Liabilities assumed			\$ --

* Working capital items exclude cash and cash equivalents, short-term investments, restricted cash, short-term debt and receivables from related parties. Working capital acquired in connection with acquisitions is reflected within "Capital expenditures and acquisitions." The effects of reclassifications between noncurrent and current assets and liabilities are excluded from the amounts shown. In addition, the increase in accounts receivable shown above does not reflect the cash proceeds from the sale of the Company's domestic trade accounts receivable (see Note 10); such proceeds are reflected separately in cash from operating activities.

** The Company received a cash arbitration award in 2000 of \$4.9 million which lowered the purchase price of the acquisition to \$34.8 million.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

INTERNATIONAL SPECIALTY PRODUCTS INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	CAPITAL STOCK, ADDITIONAL PAID-IN CAPITAL AND UNEARNED COMPENSATION	TREASURY STOCK AT COST	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	RETAINED EARNINGS	COMPREHENSIVE INCOME (LOSS)
	-----	-----	-----	-----	-----
Balance, December 31, 1998	\$489,980	\$ (8,388)	(THOUSANDS) \$ (24,761)	\$ 44,892	
Comprehensive income, year ended December 31, 1999:					
Net income	--	--	--	74,930	\$ 74,930
Other comprehensive income, net of tax:					
Unrealized holding gains, net of income taxes of \$12,054	--	--	27,949	--	27,949
Less: Reclassification adjustment for gains included in net income, net of income taxes of \$2,544	--	--	2,068	--	2,068
Unrealized gains on available-for-sale securities ..	--	--	25,881	--	25,881
Translation adjustment	--	--	(19,367)	--	(19,367)
Less: Reclassification adjustment for translation adjustment included in net income, net of income tax effect of \$521	--	--	(1,483)	--	(1,483)
Net translation adjustment	--	--	(17,884)	--	(17,884)
Minimum pension liability adjustment	--	--	4,715	--	4,715
Comprehensive income					\$ 87,642
					=====
Repurchases of common stock -- 629,000 shares	--	(4,987)	--	--	
Issuances under stock option plan -- 291,946 shares..	--	2,931	--	--	
Excess of cost of treasury stock issued over proceeds	(890)	--	--	--	
Stock issued pursuant to executive purchase agreement-- 318,599 shares	(3,100)	3,100	--	--	
Effect of issuances of stock options as incentives ...	842	--	--	--	
Balance, December 31, 1999	\$ 486,832	\$ (7,344)	\$ (12,049)	\$119,822	
Comprehensive income, year ended December 31, 2000:					
Net income	--	--	--	94,106	\$ 94,106
Other comprehensive income, net of tax:					
Unrealized holding gains, net of income taxes of \$71,382	--	--	142,995	--	142,995
Less: Reclassification adjustment for gains included in net income, net of income taxes of \$53,430	--	--	110,819	--	110,819
Unrealized gains on available-for-sale securities ..	--	--	32,176	--	32,176
Translation adjustment	--	--	(8,126)	--	(8,126)
Comprehensive income					\$ 118,156
					=====
Repurchases of common stock -- 2,772,938 shares	--	(15,458)	--	--	
Issuances under stock option plan -- 86,945 shares	--	831	--	--	
Excess of cost of treasury stock issued over proceeds	(274)	--	--	--	
Issued for executive stock bonus awards -- 75,000 shares	(275)	730	--	--	
Loans to executives	(167)	--	--	--	
Stock issued for executive restricted stock plans-- 230,000 shares	(323)	1,610	--	--	
Unearned compensation related to restricted stock awards	(1,287)	--	--	--	
Effect of issuances of stock options as incentives ...	531	--	--	--	
	-----	-----	-----	-----	

INTERNATIONAL SPECIALTY PRODUCTS INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY-- (CONTINUED)

	CAPITAL STOCK, ADDITIONAL PAID-IN CAPITAL AND UNEARNED COMPENSATION	TREASURY STOCK AT COST	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	RETAINED EARNINGS	COMPREHENSIVE INCOME (LOSS)
			(THOUSANDS)		
Balance, December 31, 2000	\$485,037	\$ (19,631)	\$ 12,001	\$213,928	
Comprehensive income (loss), year ended December 31, 2001:					
Net income	--	--	--	167	\$ 167
Other comprehensive income (loss), net of tax:					
Unrealized holding losses, net of income tax benefit of \$43,928	--	--	(82,084)	--	(82,084)
Less: Reclassification adjustment for losses included in net income, net of income tax benefit of \$7,985	--	--	(15,621)	--	(15,621)
Unrealized losses on available-for-sale securities.	--	--	(66,463)	--	(66,463)
Change in unrealized losses on derivative hedging instruments -- cash flow hedges:					
Net derivative losses, net of tax effect of \$1,189..	--	--	(2,198)	--	(2,198)
Less: Reclassification adjustment for losses included in net income, net of tax effect of \$667	--	--	(1,234)	--	(1,234)
Unrealized losses on derivative hedging instruments	--	--	(964)	--	(964)
Translation adjustment	--	--	(5,676)	--	(5,676)
Comprehensive loss					\$ (72,936)
Repurchases of common stock -- 1,937,800 shares	--	(17,610)	--		
Issuances under stock option plan -- 207,998 shares .	--	1,392	--		
Excess of proceeds of treasury stock issued over cost	98	--	--	--	
Issued for executive stock bonus award --					
13,055 shares	18	82	--	--	
Change in loans to executives	7	--	--	--	
Amortization of executive stock loan	762	--	--	--	
Stock issued for executive restricted stock plan-- 20,000 shares	33	146	--	--	
Unearned compensation related to restricted stock awards	(179)	--	--	--	
Amortization of restricted stock awards compensation	300	--	--	--	
Effect of issuances of stock options as incentives	609	--	--	--	
Balance, December 31, 2001	\$486,685	\$ (35,621)	\$ (61,102)	\$214,095	

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

INTERNATIONAL SPECIALTY PRODUCTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. FORMATION OF THE COMPANY, MERGER OF INTERNATIONAL SPECIALTY PRODUCTS INC. INTO ISP HOLDINGS INC. AND CORPORATE RESTRUCTURING

On July 15, 1998, International Specialty Products Inc. ("Old ISP") merged (the "Merger") with and into ISP Holdings Inc. ("ISP Holdings"). In connection with the Merger, ISP Holdings changed its name to International Specialty Products Inc. (the "Company"). In the Merger, each outstanding share of Old ISP's common stock, other than those held by ISP Holdings, was converted into one share of common stock of the Company, and the outstanding shares of Old ISP's common stock which were held by ISP Holdings were converted into an aggregate of 53,833,333 shares (or approximately 78%) of the outstanding shares of common stock of the Company.

International Specialty Holdings Inc. ("Holdings"), a wholly owned subsidiary of the Company, was formed on June 5, 2001 in connection with the corporate restructuring discussed below. ISP Opco Holdings Inc., which changed its name on June 5, 2001 to ISP Chemco Inc. ("ISP Chemco"), a wholly owned subsidiary of Holdings, was formed on June 24, 1998 in connection with the Merger and 100 shares of its common stock were issued to the Company. At the time of the Merger, substantially all of the assets and liabilities of Old ISP were transferred to ISP Chemco. In connection with the financing transactions discussed in Note 13, the Company completed a corporate restructuring (the "Restructuring") of its business in June 2001 in order to separate its investment assets from its specialty chemicals business. As part of the Restructuring, ISP Chemco transferred net assets of approximately \$235.7 million, consisting of all of its investment assets, totaling \$336.7 million, associated short-term debt and the outstanding stock of certain subsidiaries to Holdings, which, in turn, transferred those assets to its newly formed subsidiary, ISP Investco LLC ("ISP Investco"). After completing these transactions, ISP Chemco's assets consist solely of those related to the Company's specialty chemicals business.

The Company is engaged principally in the manufacture and sale of a wide range of specialty chemicals and mineral products. See Notes 17 and 18 for a description of and financial information relating to the Company's business segments and foreign and domestic operations.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

All subsidiaries are consolidated and intercompany transactions have been eliminated.

FINANCIAL STATEMENT ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates. Actual results could differ from those estimates. In the opinion of management, the financial statements herein contain all adjustments necessary to present fairly the financial position and the results of operations and cash flows of the Company for the periods presented. The Company has a policy to review the recoverability of long-lived assets and identify and measure any potential impairments. The Company does not anticipate any changes in management estimates that would have a material impact on operations, liquidity or capital resources.

SHORT-TERM INVESTMENTS

For securities classified as "trading" (including short positions), unrealized gains and losses are reflected in the results of operations. For securities classified as "available-for-sale," unrealized gains and losses, net of income tax effect, are included in a separate component of stockholders' equity, "Accumulated other comprehensive income (loss)," and amounted to \$34.0 and \$(32.4) million as of December 31, 2000 and 2001, respectively. The Company periodically reviews available-for-sale securities for other than temporary impairment when the cost basis of a security exceeds the market value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

"Other short-term investments" are investments in limited partnerships which are accounted for by the equity method. Gains and losses are reflected in "Other income (expense), net." Liquidation of partnership interests generally require a 30 to 45 day notice period.

Cash and cash equivalents include cash on deposit and debt securities purchased with original maturities of three months or less.

INVENTORIES

Inventories are stated at the lower of cost or market. The LIFO (last-in, first-out) method is utilized to determine cost for a substantial portion of the Company's domestic inventories. All other inventories are determined principally based on the FIFO (first-in, first-out) method.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is computed principally on the straight-line method based on the estimated economic lives of the assets. The Company uses an economic life of 10-20 years for land improvements, 40 years for buildings, and 3-20 years for machinery and equipment, which includes furniture and fixtures. Certain interest charges are capitalized during the period of construction as part of the cost of property, plant and equipment.

FOREIGN EXCHANGE CONTRACTS

The Company enters into forward foreign exchange instruments in order to hedge a portion of both its borrowings denominated in foreign currency and transactions related to the operations of foreign subsidiaries. All forward contracts are reflected on the Company's Consolidated Balance Sheets at their fair market value.

Forward contract agreements require the Company and the counterparty to exchange fixed amounts of U.S. dollars for fixed amounts of foreign currency on specified dates. The market value of such contracts varies with changes in the market exchange rates. The Company is exposed to credit loss in the event of nonperformance by the counterparties to the forward contract agreements. However, the Company does not anticipate nonperformance by the counterparties. The Company does not generally require collateral or other security to support these financial instruments.

As of December 31, 2000 and 2001, the U.S. dollar equivalent notional value of outstanding forward foreign exchange contracts was \$20.9 and \$17.7 million, respectively. All forward contracts are in major currencies with highly liquid markets and mature within one year. The Company uses quoted market prices obtained from major financial institutions to determine the market value of its outstanding forward exchange contracts. In addition, the U.S. dollar equivalent notional value of foreign exchange contracts outstanding as of December 31, 2000 and 2001, which were entered into as a hedge of intercompany loans, was \$17.0 and \$17.7 million, respectively, representing 100% of the Company's foreign currency exposure with respect to such loans. See "Derivatives and Hedging" below.

The Company continually monitors its risk from the effects of foreign currency fluctuations on its operations and on the derivative products used to hedge its risk. The Company utilizes real-time, on-line foreign exchange data and news as well as evaluation of economic information provided by financial institutions. Mark-to-market valuations are made on a regular basis. Hedging strategies are approved by senior management before being implemented.

DERIVATIVES AND HEDGING

In June 1998, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded in

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)**

the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in a derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement.

The Company adopted SFAS No. 133 as of January 1, 2001. Accounting for interest rate swaps and foreign exchange forward contracts held by the Company is affected by implementation of this standard. The earnings impact of the transition adjustments related to the initial adoption of the standard was an after-tax loss of approximately \$0.4 million, which was recorded in the first quarter of 2001 as the cumulative effect of a change in accounting principle.

As discussed in Note 13, in June 2001, ISP Chemco Inc. ("ISP Chemco"), an indirect wholly owned subsidiary of the Company, entered into \$450.0 million of Senior Credit Facilities, which include a \$225.0 million term loan. The Company has designated interest rate swaps, with a total notional amount of \$100 million, as a hedge of its exposure to changes in the eurodollar rate under the term loan. The interest rate swaps are structured to receive interest based on the eurodollar rate and pay interest on a fixed rate basis. A cash flow hedging relationship has been established whereby the interest rate swaps hedge the risk of changes in the eurodollar rate related to borrowings against the term loan. The interest rate swaps hedge exposure to changes in the eurodollar rate through July 2002.

At December 31, 2001, the fair value of the interest rate swaps was \$3.1 million and is included within "Accrued liabilities" on the Company's Consolidated Balance Sheet. During 2001, \$1.6 million related to the interest rate swaps was reclassified and charged against interest expense. In addition, \$0.3 million, representing hedge ineffectiveness, was also charged against interest expense. As of December 31, 2001, included in Accumulated Other Comprehensive Loss is a \$1.5 million pre-tax loss related to these interest rate swaps.

Derivatives held by the Company not designated as hedging instruments include total return equity swaps and forward foreign exchange instruments. These derivatives are being marked-to-market each period, with unrealized gains and losses included in results of operations. The total return equity swaps are held for investment income purposes. Foreign exchange forward contracts are held to offset exposure to changes in exchange rates affecting intercompany loans.

FOREIGN CURRENCY TRANSLATION

Assets and liabilities of foreign subsidiaries are translated at year-end exchange rates. Income and expenses are translated at average exchange rates prevailing during the year. The effects of these translation adjustments are reported in a separate component of stockholders' equity, "Accumulated other comprehensive income (loss)," and amounted to \$(22.0) and \$(27.7) million as of December 31, 2000 and 2001, respectively. Exchange gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved, principally related to the revaluation of payables and receivables, are included in "Other income (expense), net" and amounted to \$4.9, \$(1.7) and \$(4.2) million in 1999, 2000 and 2001, respectively.

NEW ACCOUNTING STANDARDS

On June 30, 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting and eliminates the pooling method of accounting. SFAS No. 141 will not have an impact on the Company's business since the Company has historically accounted for all business combinations using the purchase method of accounting. With the adoption of SFAS No. 142, goodwill will no longer be subject to amortization over its estimated useful life. However, goodwill will be subject to at least an annual assessment for impairment and more frequently if circumstances indicate a possible impairment. Companies must perform a fair-value-based goodwill impairment test. In addition, under SFAS No. 142, an

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

acquired intangible asset should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged. Intangible assets will be amortized over their useful lives. SFAS No. 142 is effective as of January 1, 2002. On an annualized basis, the Company's net income will increase by approximately \$16.6 million, unless any impairment charges are necessary.

EXCESS OF COST OVER NET ASSETS OF BUSINESSES ACQUIRED ("GOODWILL")

Goodwill, which arose principally from the 1989 management-led buyout of the predecessor company to the Company's former parent company, G-I Holdings, and as a result of the Merger (see Note 1), is amortized on the straight-line method over a period of approximately 40 years. The Company believes that the goodwill is recoverable. To determine if goodwill is recoverable, the Company compares the net carrying amount to undiscounted projected cash flows of the underlying businesses to which the goodwill pertains. If goodwill is not recoverable, the Company would record an impairment based on the difference between the net carrying amount and fair value. See "New Accounting Standards" above.

REVENUE RECOGNITION

Revenue is recognized at the time products are shipped to the customer.

SHIPPING AND HANDLING COSTS

Shipping and handling costs included in "Selling, general and administrative" expenses amounted to \$24.8, \$30.3 and \$29.1 million for 1999, 2000 and 2001, respectively.

DEBT ISSUANCE COSTS

Debt issuance costs are amortized to expense over the life of the related debt. Unamortized debt issuance costs of \$3.8 and \$21.3 million are included in "Other assets" in the Consolidated Balance Sheets at December 31, 2000 and 2001, respectively.

RESEARCH AND DEVELOPMENT

Research and development costs are charged to operations as incurred and amounted to \$23.0, \$25.6 and \$25.4 million for 1999, 2000 and 2001, respectively.

EARNINGS PER COMMON SHARE

Basic Earnings per Share are calculated based on the total weighted average number of shares of the Company's common stock outstanding during the period. Diluted Earnings per Share for periods subsequent to the Merger give effect to all potential dilutive common shares outstanding during the period under the Company's stock option plans (see Note 15).

ENVIRONMENTAL LIABILITY

The Company, together with other companies, is a party to a variety of proceedings and lawsuits involving environmental matters. The Company estimates that its liability with respect to such environmental matters, and certain other environmental compliance expenses, as of December 31, 2001, is \$26.6 million, before reduction for insurance recoveries reflected on its Consolidated Balance Sheet of \$21.7 million. The Company's liability is reflected on an undiscounted basis. The gross environmental liability is included within "Accrued liabilities" and "Other liabilities," and the estimated recoveries are included within "Other assets." See Note 19 for further discussion with respect to environmental liabilities and estimated insurance recoveries.

INTERNATIONAL SPECIALTY PRODUCTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Comprehensive Income (Loss) includes net income, unrealized gains and losses from investments in available-for-sale securities, net of income tax effect, unrealized gains and losses from derivative hedging instruments, net of income tax effect, foreign currency translation adjustments, and minimum pension liability adjustments. The Company has chosen to disclose Comprehensive Income (Loss) in the Consolidated Statements of Stockholders' Equity.

Changes in the components of "Accumulated other comprehensive income (loss)" for the years 1999, 2000 and 2001 are as follows:

	UNREALIZED GAINS (LOSSES) ON AVAILABLE- FOR-SALE SECURITIES	UNREALIZED LOSSES ON DERIVATIVE HEDGING INSTRUMENTS	CUMULATIVE FOREIGN CURRENCY TRANSLATION ADJUSTMENT	MINIMUM PENSION LIABILITY ADJUSTMENT	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
Balance, December 31, 1998	\$ (24,037)	\$ --	\$ 3,991	\$ (4,715)	\$ (24,761)
Change for the year 1999	25,881	--	(17,884)	4,715	12,712
Balance, December 31, 1999	\$ 1,844	\$ --	\$ (13,893)	\$ --	\$ (12,049)
Change for the year 2000	32,176	--	(8,126)	--	24,050
Balance, December 31, 2000	\$ 34,020	\$ --	\$ (22,019)	\$ --	\$ 12,001
Change for the year 2001	(66,463)	(964)	(5,676)	--	(73,103)
Balance, December 31, 2001	\$ (32,443)	\$ (964)	\$ (27,695)	\$ --	\$ (61,102)
	=====	=====	=====	=====	=====

RECLASSIFICATIONS

Certain amounts in the 1999 and 2000 Consolidated Financial Statements have been reclassified to conform to the 2001 presentation.

NOTE 3. SHORT-TERM INVESTMENTS

At December 31, 1999, the Company held an investment of \$149.5 million (based on market value) in Life Technologies, Inc. ("Life Technologies"), a 75%-owned subsidiary of Dexter Corporation ("Dexter"). Such investment represented approximately 14% of the outstanding common stock of Life Technologies at December 31, 1999. At December 31, 1999, the Company also held an investment of \$91.4 million (based on market value) in Dexter, representing approximately 10% of the outstanding common stock of Dexter at that date. Dexter and Life Technologies were acquired by Invitrogen Corporation ("Invitrogen") in a merger completed in September 2000. The Company sold its shares of Dexter common stock prior to the merger and also sold all of the Invitrogen common stock that it received in the merger for its Life Technologies shares, resulting in net gains, after expenses, in 2000 of \$127.6 million. The total gain related to these investments was approximately \$150 million, prior to expenses, of which a total of \$16.4 million was recognized in 1998 and 1999.

The total market value of available-for-sale securities at December 31, 2001 was \$239.3 million, consisting of \$226.9 million of equity securities and \$12.4 million of debt securities with maturities of between five and ten years. Included in available-for-sale securities at December 31, 2001 is a \$107.2 million investment in Hercules Incorporated ("Hercules"). Such investment represented approximately 9.9% of the outstanding common stock of Hercules at December 31, 2001.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 3. SHORT-TERM INVESTMENTS -- (CONTINUED)

"Other income (expense), net," includes total investment income (losses) of \$16.1, \$157.1 and \$(9.4) million in 1999, 2000 and 2001, respectively. The investment income (losses) consist of \$17.9, \$163.3 and \$(10.3) million of net realized and certain unrealized gains (losses) on securities in 1999, 2000 and 2001, respectively, and \$(1.8), \$(6.2) and \$0.9 million, respectively, of net interest, dividends and investment-related expenses. In 2001, investment losses include a write-down to fair value of \$29.1 million for certain available-for-sale securities sold shortly after the balance sheet date. The determination of cost in computing realized and unrealized gains and losses is based on the specific identification method.

As of December 31, 2000 and 2001, the market value of the Company's equity securities held long was \$486.8 and \$296.0 million, respectively, and the Company had \$251.2 and \$57.5 million, respectively, of short positions in common stocks, based on market value. The Company enters into equity-related financial instruments as a means to manage its exposure to market fluctuations on its short-term investments. As of December 31, 2000 and 2001, the value of equity-related long contracts was \$40.1 and \$13.5 million, respectively, and the value of equity-related short contracts was \$0 and \$7.2 million, respectively, both of which are marked-to-market each month, with unrealized gains and losses included in the results of operations. The market values referred to above are based on quotations as reported by various stock exchanges and major broker/dealers. With respect to its investments in securities, the Company is exposed to the risk of market loss.

NOTE 4. (PROVISION) BENEFIT FOR RESTRUCTURING

In January 1999, the Company announced a restructuring program that included the shutdown of its butanediol production unit at its Calvert City, Kentucky manufacturing facility, the write-down to fair value of the butanediol production assets at its Texas City and Seadrift, Texas manufacturing facilities, the write-off of fixed asset costs related to a terminated European expansion project and the consolidation of offices in its European operations. Accordingly, the Company recorded a one-time provision for restructuring and impairment loss against operating income in 1998 totaling \$73.0 million.

In 1999, the Company reversed \$1.9 million of such previously recorded restructuring reserves, representing an excess demolition reserve of \$0.8 million and \$1.1 million of other reserves, mainly for raw material contract terminations, which were no longer required. This program was completed in the third quarter of 2000. In the third quarter of 1999, the Company implemented a staff reduction program impacting corporate and worldwide executive and administrative staff positions. As a result, a total of 79 positions were eliminated in 1999 through normal attrition or termination, for which the Company recorded a pre-tax provision for severance of \$2.3 million. This program was completed in the second quarter of 2000.

As part of the 1998 restructuring program, the Company wrote down to fair value the butanediol production assets at its Texas City and Seadrift, Texas manufacturing facilities. In December 2000, the Company shut down production at the Seadrift facility and shut down production of butanediol at the Texas City facility in the first quarter of 2001. Accordingly, the Company recorded a one-time restructuring charge against operating income in 2000 of \$2.5 million, as detailed below. Also, in connection with the relocation of certain of the Company's production lines for personal care products to the Company's Freetown, Massachusetts facility, the Company shut down its manufacturing operation in Belleville, New Jersey in the first quarter of 2001. Accordingly, the Company recorded a restructuring charge against operating income in 2000 of \$11.9 million, as detailed below.

INTERNATIONAL SPECIALTY PRODUCTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 4. (PROVISION) BENEFIT FOR RESTRUCTURING -- (CONTINUED)

The components of the \$14.4 million provision for restructuring in 2000 are as follows:

	BELLEVILLE	TEXAS CITY/ SEADRIFT
	-----	-----
	(MILLIONS)	
Write-off of production assets	\$10.4	\$0.4
Accrual for severance costs	0.9	0.7
Accrual for decommissioning and remediation	--	1.4
Accrual for other related costs	0.6	--
	-----	-----
Total provision	\$11.9	\$2.5
	=====	=====

Of the total \$14.4 million restructuring provision, \$3.6 million represented cash costs to be incurred, including severance costs of \$0.9 million for 33 plant management, supervisors and operators to be terminated at the Belleville plant and severance costs of \$0.7 million for 10 supervisors and operators at the Texas City and Seadrift plants. As a result of the write-off of property, plant and equipment, the Company's depreciation expense was lowered by approximately \$1.4 million per year.

In 2001, \$1.1 million of costs were charged against the Belleville reserve and \$0.4 million of this reserve was reversed, representing an excess severance reserve and reserve for other related costs. This program was completed in the fourth quarter of 2001. In 2001, \$2.0 million of costs were charged against the Texas City/Seadrift reserve and \$0.1 million of this reserve was reversed, representing an excess severance reserve. This program was completed in the fourth quarter of 2001.

NOTE 5. GAINS ON CONTRACT AND INSURANCE SETTLEMENTS

In the first quarter of 2000, the Company received \$3.5 million from the settlement of a pre-1997 contract termination dispute relating to the Company's Mineral Products segment. In 2001, the Company recorded a \$1.6 million gain for an anticipated receipt of an insurance settlement related to an industrial accident in 2001 at one of the Company's manufacturing facilities.

NOTE 6. DISPOSITION OF ASSETS

On April 2, 1999, the Company sold its pearlescent pigments business, a non-core product line that was part of the Personal Care business segment, which resulted in a pre-tax gain of \$8.5 million. The pearlescent pigments product line accounted for \$4.9 million of the Company's net sales in 1998. As a result, the sale did not have a material impact on the Company's results of operations for the year 1999.

NOTE 7. DISCONTINUED OPERATION

On October 1, 1999, the Company sold the stock of its Filter Products subsidiaries to Hayward Industrial Products, Inc. for a purchase price of \$62.0 million. The gain on the sale was \$23.5 million, after income taxes of \$12.7 million. Accordingly, the Filter Products business segment is reported as a discontinued operation in the Consolidated Financial Statements.

INTERNATIONAL SPECIALTY PRODUCTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 7. DISCONTINUED OPERATION -- (CONTINUED)

Summary operating results for the Filter Products business are as follows:

YEAR ENDED	
DECEMBER 31,	
	1999

	(THOUSANDS)
Net sales	\$28,730
	=====
Income before income taxes	\$ 2,726
Income taxes	(957)

Net income	\$ 1,769
	=====

NOTE 8. INCOME TAXES

Income tax (provision) benefit from continuing operations consists of the following:

	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
	-----	-----	-----
	(THOUSANDS)		
Federal:			
Current	\$ (1,342)	\$ (3,296)	\$ (930)
Deferred	(10,403)	(35,258)	8,794
	-----	-----	-----
Total Federal	(11,745)	(38,554)	7,864
	-----	-----	-----
Foreign:			
Current	(16,830)	(17,466)	(7,318)
Deferred	5,185	9,076	416
	-----	-----	-----
Total foreign	(11,645)	(8,390)	(6,902)
	-----	-----	-----
State and local:			
Current	(2,586)	(3,455)	(840)
Deferred	(846)	(470)	(472)
	-----	-----	-----
Total state and local	(3,432)	(3,925)	(1,312)
	-----	-----	-----
Income tax provision	\$ (26,822)	\$ (50,869)	\$ (350)
	=====	=====	=====

The differences between the income tax provision computed by applying the statutory Federal income tax rate to pre-tax income, and the income tax provision reflected in the Consolidated Statements of Income are as follows:

	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
	-----	-----	-----
	(THOUSANDS)		
Statutory tax provision	\$ (26,746)	\$ (50,741)	\$ (335)
Impact of:			
Foreign operations	4,388	5,768	5,787
State and local taxes, net of Federal benefits	(2,231)	(2,552)	(853)
Nondeductible goodwill amortization	(5,723)	(5,668)	(5,826)
Percentage depletion	1,943	1,521	659
Other, net	1,547	803	218
	-----	-----	-----
Income tax provision	\$ (26,822)	\$ (50,869)	\$ (350)
	=====	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 8. INCOME TAXES -- (CONTINUED)

The components of the net deferred tax liability are as follows:

	DECEMBER 31,	
	2000	2001
	(THOUSANDS)	
Deferred tax liabilities related to:		
Property, plant and equipment	\$101,959	\$107,818
Other	78,212	30,102
Total deferred tax liabilities	180,171	137,920
Deferred tax assets related to:		
Expenses not yet deducted for tax purposes	(23,742)	(22,478)
Carryover AMT and R&D credits	(11,970)	(14,391)
Other	(22,672)	(24,683)
Total deferred tax assets	(58,384)	(61,552)
Net deferred tax liability	121,787	76,368
Deferred tax assets reclassified to other current assets	29,394	32,929
Noncurrent deferred tax liability	\$151,181	\$109,297
	=====	=====

The Company and certain of its subsidiaries were parties to tax sharing agreements with members of the consolidated group for Federal income tax purposes that included G-I Holdings Inc., (the "G-I Holdings Group"), in certain prior years and, accordingly, would be severally liable for any tax liability of the G-I Holdings Group in respect of those prior years. Until January 1, 1997, the Company and its subsidiaries were members of the G-I Holdings Group. Therefore, such tax sharing agreements are no longer applicable with respect to the tax liabilities of the Company and its subsidiaries for periods subsequent to January 1, 1997. The Company and certain of its subsidiaries remain obligated, however, with respect to tax liabilities imposed or that may be imposed for periods prior to such date. Among other things, those tax sharing agreements provide for the sharing of the G-I Holdings Group's consolidated tax liability based on each member's share of the tax as if such member filed on a separate basis. Accordingly, a payment of tax would be made to G-I Holdings equal to the Company's allocable share of the G-I Holdings Group's consolidated tax liability.

On September 15, 1997, G-I Holdings received a notice from the Internal Revenue Service (the "IRS") of a deficiency in the amount of \$84.4 million (after taking into account the use of net operating losses and foreign tax credits otherwise available for use in later years) in connection with the formation in 1990 of Rhone-Poulenc Surfactants and Specialties, L.P. (the "surfactants partnership"), a partnership in which G-I Holdings held an interest. G-I Holdings has advised the Company that it believes that it will prevail in the tax matter arising out of the surfactants partnership, although there can be no assurance in this regard. The Company believes that the ultimate disposition of this matter will not have a material adverse effect on its business, financial position or results of operations. On September 21, 2001, the IRS filed a proof of claim with respect to such deficiency against G-I Holdings in the G-I Holdings bankruptcy. If such proof of claim is sustained, the Company and/or some of the Company's subsidiaries, together with G-I Holdings and several current and former subsidiaries of G-I Holdings would be severally liable for such taxes and interest in the amount of approximately \$250.0 million should G-I Holdings be unable to satisfy such liability. In January 2001, G-I Holdings filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code due to its asbestos-related bodily injury claims relating to the inhalation of asbestos fiber. See Note 19.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 9. ACQUISITIONS

On October 15, 1999, the Company acquired substantially all of the assets of the Kelco Alginates division of Monsanto Company, including manufacturing facilities in San Diego, California and Girvan, Scotland, a research facility in Tadworth, England and equity investments in three seaweed processing joint ventures in Ireland, Iceland and Tasmania. The alginates business manufactures sodium alginate, propylene glycol alginate and other alginate derivatives. The results of the alginates business, including sales of \$12.8 million for 1999, are included in the Company's financial statements from the date of its acquisition and were not material to 1999 operations.

On June 7, 2001, the Company completed the acquisition of substantially all of the assets of FineTech Ltd. ("FineTech"), a pharmaceutical research company based in Haifa, Israel. FineTech specializes in the design of proprietary synthetic routes and methodologies used in the production of highly complex and valuable organic compounds for the pharmaceutical industry. The acquisition was accounted for under the purchase method of accounting. Accordingly, the purchase price was allocated to the estimated fair value of the identifiable assets acquired, including \$9.5 million of intangible assets, and the excess was recorded as goodwill, pending management's valuation of the fair values of the net assets acquired as of the date of acquisition. The results of the FineTech business, including sales of \$2.2 million in 2001, are included in the Company's results from the date of its acquisition and were not material to 2001 operations.

On December 31, 2001, the Company's wholly owned subsidiary, ISP (Canada) Inc. completed the acquisition of the industrial biocides business of Degussa Corporation. The industrial biocides business manufactures FUNGITROL(R) fungicides, NUOSEPT(R) preservatives, NUOCIDE(R) fungicides and algacides, and BIOTREND(R) biocides. The acquisition was accounted for under the purchase method of accounting. Accordingly, the purchase price was allocated to the estimated fair value of the identifiable assets acquired, including \$6.3 million of intangible assets, and the excess was recorded as goodwill, pending management's valuation of the fair values of the net assets acquired as of the date of acquisition. The results of the industrial biocides business will be included in the Company's results from the date of its acquisition. This business had sales of approximately \$27 million in 2001.

NOTE 10. SALE OF ACCOUNTS RECEIVABLE

In October 2001, the Company entered into a new agreement for the sale of its domestic receivables, under which the company sells certain of its trade accounts receivable without recourse. This agreement replaces the previous agreement which terminated in October 2001. The new agreement has a termination date of October 2004 and provides for up to \$40.0 million in cash to be made available to the Company based on eligible receivables outstanding from time to time. The excess of accounts receivable sold over the net proceeds received is included in "Accounts receivable, other." The effective cost to the Company varies with LIBOR or commercial paper rates and is included in "Other income (expense), net" and amounted to \$2.5, \$2.3 and \$1.9 million in 1999, 2000 and 2001, respectively.

NOTE 11. INVENTORIES

Inventories comprise the following:

	DECEMBER 31,	
	2000	2001
	-----	-----
	(THOUSANDS)	
Finished goods	\$ 93,356	\$119,124
Work-in-process	29,022	37,332
Raw materials and supplies	28,570	34,126
	-----	-----
Inventories	\$150,948	\$190,582
	=====	=====

INTERNATIONAL SPECIALTY PRODUCTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 11. INVENTORIES -- (CONTINUED)

At December 31, 2000 and 2001, \$38.7 and \$60.1 million, respectively, of domestic inventories were valued using the LIFO method. If the FIFO inventory method had been used to value these inventories, they would have been \$0.1 million lower at December 31, 2000 and \$3.7 million higher at December 31, 2001.

NOTE 12. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net, comprises the following:

	DECEMBER 31,	
	2000	2001
	-----	-----
	(THOUSANDS)	
Land and land improvements	\$ 78,236	\$ 80,594
Buildings and building equipment	105,279	111,347
Machinery and equipment	630,751	689,132
Construction in progress	60,326	45,592
	-----	-----
Total	874,592	926,665
Less accumulated depreciation	(311,619)	(365,821)
	-----	-----
Property, plant and equipment, net	\$ 562,973	\$560,844
	=====	=====

See Note 19 for information regarding capital leases.

NOTE 13. LONG-TERM DEBT AND LINES OF CREDIT

Long-term debt comprises the following:

	DECEMBER 31,	
	2000	2001
	-----	-----
	(THOUSANDS)	
9 3/4% Senior Notes due February 2002	\$199,871	\$ --
9% Senior Notes due October 2003	324,638	307,858
Senior Credit Facilities:		
Term loan expiring June 2008	--	223,875
Revolving credit facility	196,000	95,250
10 5/8% Senior Secured Notes due 2009	--	200,000
10 1/4% Senior Subordinated Notes due 2011	--	402,536
Obligation on mortgaged property, due January 2001	28,125	--
Obligations under capital leases (Note 19)	533	271
Other	32	32
	-----	-----
Total long-term debt	749,199	1,229,822
Less current maturities	(224,419)	(310,265)
	-----	-----
Long-term debt less current maturities	\$524,780	\$ 919,557
	=====	=====

On June 27, 2001, ISP Chemco and three of its wholly owned subsidiaries jointly issued \$205.0 million aggregate principal amount of 10 1/4% Senior Subordinated Notes due 2011 (the "2011 Notes"). The net proceeds of \$197.3 million, after discount and fees, were placed in a restricted cash escrow account and used to retire the Company's 9 3/4% Senior Notes due 2002 (the "2002 Notes"). During the third quarter of 2001, the Company retired \$19.9 million of the 2002 Notes, and the remaining \$180.0 million of the 2002 Notes were retired on or prior to October 15, 2001. On July 31, 2001, ISP Chemco and those same three wholly owned subsidiaries jointly issued an additional \$100.0 million aggregate principal amount of the 2011 Notes. These notes have the same

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 13. LONG-TERM DEBT AND LINES OF CREDIT -- (CONTINUED)

terms as the 2011 Notes issued in June 2001. The net proceeds were \$98.9 million, including \$0.9 million of accrued interest from June 27, 2001 to the date of issuance, of which \$98.0 million were placed in a restricted cash escrow account and used to retire a portion of the Company's 9% Senior Notes due 2003 (the "2003 Notes").

On November 13, 2001, ISP Chemco and those same three wholly owned subsidiaries jointly issued an additional \$100.0 million aggregate principal amount of the 2011 Notes. These notes have the same terms as the 2011 Notes issued in June 2001 except with respect to interest accrual and registration rights. The net proceeds of \$101.0 million were placed in a restricted cash escrow account and used to retire a portion of the 2003 Notes. The Company retired \$16.9 million aggregate principal amount of the 2003 Notes in 2001. On January 14, 2002, the Company redeemed the remaining \$307.9 million aggregate principal amount of the 2003 Notes. The Company will record an after-tax extraordinary charge of \$4.7 million in the first quarter of 2002 in connection with this redemption.

The 2011 Notes are guaranteed by substantially all of ISP Chemco's domestic subsidiaries. The 2011 Notes were issued under an indenture which, among other things, limits the ability of ISP Chemco and its subsidiaries, except its accounts receivable subsidiary and certain immaterial subsidiaries, to incur additional debt, issue preferred stock, incur liens, and pay dividends or make certain other restricted payments and restricted investments.

In a related transaction, ISP Chemco and its three subsidiaries which issued the 2011 Notes also entered into \$450.0 million of new senior secured credit facilities (the "Senior Credit Facilities"), the initial borrowings under which were used to repay amounts outstanding under the Company's previous credit facility. The Senior Credit Facilities are comprised of a \$225.0 million term loan with a maturity of seven years and a \$225.0 million revolving credit facility which will terminate in five years. The revolving credit facility includes a borrowing capacity not in excess of \$50.0 million for letters of credit. All borrowings under the Senior Credit Facilities are based on either an alternate base rate (based on the banks' base rate or on the federal funds rate) or on the eurodollar rate plus a margin based on the ratio of ISP Chemco's total consolidated debt to EBITDA (as defined in the Senior Credit Facilities). The average interest rate at December 31, 2001 on borrowings under the Senior Credit Facilities was 5.3%. The Senior Credit Facilities require compliance with various financial covenants, including a total debt leverage maintenance ratio, a senior debt leverage maintenance ratio, an interest coverage ratio and a minimum adjusted net worth. At December 31, 2001, ISP Chemco and its subsidiaries were in compliance with these covenants. As of December 31, 2001, \$95.3 million of borrowings and \$5.6 million of letters of credit were outstanding under the revolving credit facility. In addition, the Senior Credit Facilities limit the ability of ISP Chemco and its subsidiaries, except its accounts receivable subsidiary and certain immaterial subsidiaries, to incur additional debt, issue preferred stock, incur liens, and pay dividends or make certain other restricted payments and restricted investments. ISP Chemco and substantially all of its domestic subsidiaries are designated as obligors under the Senior Credit Facilities. The obligations of the obligors under the Senior Credit Facilities are secured by a first-priority security interest in 100% of the capital stock of ISP Chemco's domestic subsidiaries and 66% of the capital stock of some of ISP Chemco's foreign subsidiaries, and substantially all of the real and personal property of the obligors, except for the Company's accounts receivable subsidiary and certain immaterial subsidiaries.

On December 13, 2001, Holdings issued \$200.0 million principal amount of 10 5/8% Senior Secured Notes due 2009 (the "2009 Notes"). The net proceeds from this issuance were approximately \$194.3 million, of which \$125.7 million were placed in a restricted cash escrow account and used to retire the remaining 2003 Notes on January 14, 2002. The 2009 Notes are secured by a first priority lien on all of the outstanding capital stock of ISP Chemco. The 2009 Notes are structurally subordinated to all liabilities of Holdings' subsidiaries. The 2009 Notes were issued under an indenture which, among other things, limits the ability of Holdings and its subsidiaries, except unrestricted subsidiaries, to incur additional debt, issue preferred stock, incur liens, and pay dividends or

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 13. LONG-TERM DEBT AND LINES OF CREDIT -- (CONTINUED)

make certain other restricted payments and restricted investments. ISP Investco, its subsidiaries, the Company's accounts receivable subsidiary and certain immaterial subsidiaries have been designated as unrestricted subsidiaries under the indenture related to the 2009 Notes.

In October 1996, the Company issued \$325 million principal amount of the 2003 Notes. As discussed above, the Company redeemed the remaining 2003 Notes on January 14, 2002.

Borrowings by the Company's subsidiaries, including those under the Senior Credit Facilities, are subject to the application of certain financial covenants contained in such agreement and in the indentures relating to the 2009 and 2011 Notes. As of December 31, 2001, the Company's subsidiaries were in compliance with such covenants, and the application of such covenants would not have restricted available borrowings under the Senior Credit Facilities.

The Senior Credit Facilities and the indentures governing the 2009 and 2011 Notes contain additional affirmative and negative covenants affecting some of the Company's subsidiaries, including restrictions on transactions with affiliates, sale-leaseback transactions, mergers and transfers of all or substantially all of those subsidiaries' assets. Additionally, in the event the holders of the 2009 Notes were to foreclose on ISP Chemco's capital stock following an event of default under those notes, the sale of the capital stock would constitute a change of control of ISP Chemco. Under the indenture governing the 2011 Notes, if a change of control of ISP Chemco occurs, ISP Chemco is obligated to make an offer to repurchase the 2011 Notes from their respective holders. The terms of the Senior Credit Facilities, however, prohibit the repayment of the 2011 Notes in that event, unless and until such time as the indebtedness under the Senior Credit Facilities is repaid in full. Failure to make such repayment upon a change of control would result in a default under the 2011 Notes. A change of control of ISP Chemco would also result in a default under the Senior Credit Facilities. In the event of a default under the indenture governing the 2011 Notes or under the Senior Credit Facilities, the holders of the 2011 Notes or the lenders under the Senior Credit Facilities, as the case may be, could elect to accelerate the maturity of all the 2011 Notes or the loans under the Senior Credit Facilities. Those events could have a material adverse effect on the Company's financial condition and results of operations.

At December 31, 2000, the Company had a \$28.1 million mortgage obligation on its headquarters property. This mortgage was repaid in January 2001. Interest on the mortgage was at a floating rate based on LIBOR.

The Company believes that the fair value of its non-public variable rate indebtedness approximates the book value of such indebtedness because the interest rates on such indebtedness are at floating short-term rates. With respect to the Company's publicly traded debt securities, the Company has obtained estimates of fair values from an independent source believed to be reliable. The estimated fair value of the 2002 Notes as of December 31, 2000 was \$165.9 million, the estimated fair value of the 2003 Notes as of December 31, 2000 and 2001 was \$246.7 and \$312.5 million, respectively, and the estimated fair value of the 2009 Notes and the 2011 Notes as of December 31, 2001 was \$200.3 and \$418.6 million, respectively.

The aggregate maturities of long-term debt as of December 31, 2001 for the next five years are as follows:

(THOUSANDS)

2002	.....	\$310,265
2003	.....	2,390
2004	.....	2,253
2005	.....	2,252
2006	.....	149,812

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 13. LONG-TERM DEBT AND LINES OF CREDIT -- (CONTINUED)

In the above table, maturities in 2002 include the \$307.9 million of 2003 Notes which were redeemed on January 14, 2002, based on their accreted value as of December 31, 2001. Maturities in 2006 include the \$95.3 million of borrowings outstanding under the revolving credit facility, based on the expiration of the revolving credit facility in June 2006, and \$54.6 million of maturities relating to the term loan under the Senior Credit Facilities. Maturities for each of the years 2002 through 2005 include \$2.3 million of maturities relating to such term loan.

At December 31, 2001, the Company's foreign subsidiaries had total available short-term lines of credit aggregating \$2.8 million, of which \$2.7 million were unused. Short-term borrowings at December 31, 2000 were \$143.7 million. The weighted-average interest rate on those borrowings was 7.0%. Short-term borrowings at December 31, 2001 were not significant.

NOTE 14. BENEFIT PLANS

Eligible, full-time employees of the Company are covered by various benefit plans, as described below.

DEFINED CONTRIBUTION PLAN

The Company provides a defined contribution plan for eligible employees. The Company contributes up to 7% of participants' compensation (any portion of which can be contributed, at the participants' option, in the form of the Company's common stock), and also contributes fixed amounts, ranging from \$50 to \$750 per year depending on age, to the accounts of participants who are not covered by a Company-provided postretirement medical benefit plan. The aggregate contributions by the Company were \$8.1, \$7.7 and \$7.3 million for 1999, 2000 and 2001, respectively.

DEFINED BENEFIT PLANS

The Company provides a noncontributory defined benefit retirement plan for certain hourly employees in the United States (the "Hourly Retirement Plan"). Benefits under this plan are based on stated amounts for each year of service. The Company's funding policy is consistent with the minimum funding requirements of ERISA.

ISP Marl GmbH, a wholly owned subsidiary of the Company, provides a noncontributory defined benefit retirement plan for its hourly and salaried employees (the "ISP Marl Plan"). Benefits under this plan are based on average earnings over each employee's career with the Company.

The Company's net periodic pension cost (income) for the Hourly Retirement Plan and the ISP Marl Plan included the following components:

	HOURLY RETIREMENT PLAN			ISP MARL PLAN		
	YEAR ENDED DECEMBER 31,			YEAR ENDED DECEMBER 31,		
	1999	2000	2001	1999	2000	2001
	-----	-----	-----	-----	-----	-----
	(THOUSANDS)					
Service cost	\$ 310	\$ 247	\$ 247	\$176	\$ 99	\$133
Interest cost	1,678	1,811	1,932	236	132	220
Expected return on plan assets	(2,314)	(2,633)	(3,084)	--	--	--
Amortization of actuarial losses	215	40	36	12	--	--
Amortization of unrecognized prior service cost	174	190	190	11	7	8
	-----	-----	-----	-----	-----	-----
Net periodic pension cost (income)	\$ 63	\$ (345)	\$ (679)	\$435	\$238	\$361
	=====	=====	=====	=====	=====	=====

INTERNATIONAL SPECIALTY PRODUCTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 14. BENEFIT PLANS -- (CONTINUED)

The following tables set forth, for the years 2000 and 2001, reconciliations of the beginning and ending balances of the benefit obligation, fair value of plan assets, funded status and amounts recognized in the Consolidated Balance Sheets related to the Hourly Retirement Plan and the ISP Marl Plan:

	HOURLY RETIREMENT PLAN		ISP MARL PLAN	
	DECEMBER 31,		DECEMBER 31,	
	2000	2001	2000	2001
	(THOUSANDS)			
Change in benefit obligation:				
Benefit obligation at beginning of year	\$23,429	\$25,406	\$ 3,796	\$ 3,165
Service cost	247	247	99	133
Interest cost	1,811	1,932	132	220
Plan amendments	236	--	--	--
Actuarial (gains) losses	1,028	1,707	(862)	128
Benefits paid	(1,345)	(1,416)	--	--
Benefit obligation at end of year	25,406	27,876	3,165	3,646
Change in plan assets:				
Fair value of plan assets at beginning of year	23,661	28,132	--	--
Actual return on plan assets	3,959	2,467	--	--
Employer contributions	1,857	1,308	--	--
Benefits paid	(1,345)	(1,416)	--	--
Fair value of plan assets at end of year	28,132	30,491	--	--
Reconciliation of funded status:				
Funded status	2,726	2,615	(3,165)	(3,646)
Transition obligation	--	--	96	123
Unrecognized prior service cost	1,109	919	--	--
Unrecognized actuarial (gains) losses	2,299	4,587	(64)	110
Net amount recognized in Consolidated Balance Sheets as (accrued) prepaid benefit cost ..	\$ 6,134	\$ 8,121	\$ (3,133)	\$ (3,413)
	=====	=====	=====	=====

In determining the projected benefit obligation, the weighted-average assumed discount rate was 7.50% and 7.25% for 2000 and 2001, respectively, for the Hourly Retirement Plan, and was 6.5% for each year for the ISP Marl Plan. The expected long-term rate of return on assets, used in determining net periodic pension cost (income) for the Hourly Retirement Plan, was 11% for 2000 and 2001 and was 7% for each year for the ISP Marl Plan.

The Company also provides a nonqualified defined benefit retirement plan for certain key employees. Expense accrued for this plan was \$0.9, \$1.2 and \$0.7 million for 1999, 2000 and 2001, respectively.

In connection with the Company's Supplemental Executive Retirement Plan and postretirement medical and life insurance plan, the Company owns certain life insurance policies with a face value of \$98.9 million at December 31, 2001. These policies had a cash surrender value of \$38.3 and \$41.4 million at December 31, 2000 and 2001, respectively, and policy loans of \$36.8 and \$39.7 million, respectively. The net cash surrender value at December 31, 2000 and 2001 was \$1.5 and \$1.7 million, respectively, and is included in "Other assets."

INTERNATIONAL SPECIALTY PRODUCTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 14. BENEFIT PLANS -- (CONTINUED)

POSTRETIREMENT MEDICAL AND LIFE INSURANCE

The Company generally does not provide postretirement medical and life insurance benefits, although it subsidizes such benefits for certain employees and certain retirees. Such subsidies were reduced as of January 1, 2000.

The net periodic postretirement benefit cost included the following components:

YEAR ENDED DECEMBER 31,

	1999	2000	2001
	-----	-----	-----
		(THOUSANDS)	
Service cost	\$ 7	\$ 109	\$ 123
Interest cost	608	576	679
Amortization of actuarial loss	--	--	64
Amortization of unrecognized prior service cost	(179)	(284)	(284)
	-----	-----	-----
Net periodic postretirement benefit cost	\$ 436	\$ 401	\$ 582
	=====	=====	=====

The following table sets forth, for the years 2000 and 2001, reconciliations of the beginning and ending balances of the postretirement benefit obligation, funded status and amounts recognized in the Consolidated Balance Sheets related to postretirement medical and life insurance benefits:

DECEMBER 31,

	2000	2001
	-----	-----
	(THOUSANDS)	
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 7,640	\$ 8,168
Service cost	109	123
Interest cost	576	679
Effect of plan amendments	(1,750)	--
Actuarial losses	2,051	1,356
Benefits paid, net of participant contributions	(458)	(565)
	-----	-----
Benefit obligation at end of year	8,168	9,761
	-----	-----
Change in plan assets:		
Fair value of plan assets at beginning of year	--	--
Employer contributions	458	565
Benefits paid, net of participant contributions	(458)	(565)
	-----	-----
Fair value of plan assets at end of year	--	--
	-----	-----
Reconciliation of funded status:		
Funded status	(8,168)	(9,761)
Unrecognized prior service cost	(2,440)	(2,157)
Unrecognized actuarial losses	842	2,135
	-----	-----
Net amount recognized in Consolidated		
Balance Sheets as accrued		
benefit cost	\$ (9,766)	\$ (9,783)
	=====	=====

For purposes of calculating the accumulated postretirement benefit obligation, the following assumptions were made. Retirees as of December 31, 2001 who were formerly salaried employees (with certain exceptions) were assumed to receive a Company subsidy of \$400 to \$1,000 per year. For retirees over age 65, this subsidy may be replaced by participation in a managed care program. With respect to retirees who were formerly hourly

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 14. BENEFIT PLANS -- (CONTINUED)

employees, most such retirees are subject to a \$5,000 per person lifetime maximum benefit. Subject to such lifetime maximum, a 9% and 6% annual rate of increase in the Company's per capita cost of providing postretirement medical benefits was assumed for 2001 for such retirees under and over age 65, respectively. To the extent that the lifetime maximum benefits have not been reached, the foregoing rates were assumed to decrease gradually to an ultimate rate of 5% and 6%, respectively, by the year 2009 and remain at that level thereafter. The weighted-average assumed discount rate used in determining the accumulated postretirement benefit obligation was 7.50% and 7.25% for 2000 and 2001, respectively.

The health care cost trend rate assumption has an effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 2000 and 2001 by \$156,000 and \$25,000, respectively, and the aggregate of the service and interest cost components of the net periodic postretirement benefit cost for the years 2000 and 2001 by \$11,000 and \$2,000, respectively. A decrease of one percentage point in each year would decrease the accumulated postretirement benefit obligation as of December 31, 2000 and 2001 by \$138,000 and \$22,000, respectively, and the aggregate of the service and interest cost components of the net periodic postretirement benefit cost for the years 2000 and 2001 by \$10,000 and \$2,000, respectively.

NOTE 15. STOCK OPTION AND AWARD PLANS, LONG TERM INCENTIVE PLAN AND STOCK APPRECIATION RIGHTS

The 1991 Incentive Plan for Key Employees and Directors, as amended (the "1991 Plan"), authorized the grant of options to purchase a maximum of 13,000,000 shares of the Company's common stock. The Compensation Committee of the Board of Directors (the "Committee") determined the exercise price and vesting schedule of options granted under the 1991 Plan. In 1995 through 1999, the Company granted options to certain employees to purchase an aggregate of 3,217,020 shares of the Company's common stock at exercise prices ranging from \$.625 to \$5.625 below the fair market value of such shares on the date of grant. The difference between the exercise price and the fair market value of such shares on the date of grant is being recognized as compensation expense over the vesting period of 2 1/2 to 5 years. Compensation expense for such options was \$0.8, \$0.5 and \$0.6 million in 1999, 2000 and 2001, respectively. All other employee options granted under the 1991 Plan have a term of nine years, have an exercise price equal to the fair market value of such shares on the date of grant and become exercisable at a rate determined by the Committee at the time of grant. Special vesting rules apply to options granted to non-employee directors. The 1991 Plan expired in accordance with its terms in June 2000, and no additional options will be granted under the 1991 Plan.

Effective July 1, 2000, the Company adopted the 2000 Stock Option Plan for Non-Employee Directors (the "2000 Plan"), which was approved by stockholders in May 2001. The 2000 Plan authorizes the grant of options to purchase a maximum of 200,000 shares of the Company's common stock. Under the 2000 Plan, each non-employee director is granted a non-qualified stock option to purchase 5,000 shares of common stock (the "Initial Option") on the date such person becomes an eligible director and an additional non-qualified option to purchase 3,000 shares of common stock (an "Additional Option") on each anniversary of the date of grant of the Initial Option. The term of each option granted is nine years. Initial Options are subject to a three-year vesting period, commencing on the first anniversary of the date of grant, and Additional Options are subject to a one-year vesting period, becoming exercisable in full on the first anniversary of the date of grant. The exercise price of the options is equal to the fair market value of such shares on the date of grant. During 2000 and 2001, the Company granted 15,000 and 19,000 options, respectively, pursuant to the 2000 Plan, of which 28,000 options were outstanding at December 31, 2001.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 15. STOCK OPTION AND AWARD PLANS, LONG TERM INCENTIVE PLAN AND STOCK APPRECIATION RIGHTS -- (CONTINUED)

The Company has elected the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and applies APB Opinion No. 25 and related interpretations in accounting for the 1991 Plan and the 2000 Plan (collectively, the "Plans"). If the Company had elected to recognize compensation cost based on the fair value of awards under the Plans at grant dates, the Company's pro forma net income (loss) for the years 1999, 2000 and 2001 would have been \$71.2, \$91.8 and \$(1.3) million, respectively, and pro forma basic earnings (loss) per share would have been \$1.04, \$1.35 and \$(.02), respectively. The SFAS No. 123 method of accounting has not been applied to options granted prior to January 1, 1995, and the resulting pro forma compensation expense may not be indicative of pro forma expense in future years.

The fair value of the Company's stock options used to compute pro forma net income and earnings per share is the estimated present value at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: risk-free interest rate of 6%; expected life of 6 years; expected volatility of 24%; and dividend yield of 0%.

The following is a summary of transactions pertaining to the Plans:

	YEAR ENDED DECEMBER 31, 1999		YEAR ENDED DECEMBER 31, 2000		YEAR ENDED DECEMBER 31, 2001	
	SHARES (000'S)	WEIGHTED AVERAGE EXERCISE PRICE	SHARES (000'S)	WEIGHTED AVERAGE EXERCISE PRICE	SHARES (000'S)	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, January 1	6,989	\$12.06	8,028	\$10.93	4,625	\$10.50
Granted	3,468	9.47	20	6.12	19	8.68
Exercised	(292)	7.03	(87)	6.40	(208)	7.17
Exchanged for Incentive Plan Units.....	--	--	(2,033)	10.94	--	--
Forfeited	(2,137)	12.78	(1,303)	11.62	(570)	11.71
Outstanding, December 31	8,028	10.93	4,625	10.50	3,866	10.49
Options exercisable, December 31	3,162	10.81	2,669	10.24	3,158	10.48

Based on calculations using the Black-Scholes option-pricing model, the weighted-average fair value of options granted in 1999, 2000 and 2001 under the Plans for which the exercise price equaled the fair market value of such shares on the date of grant was \$2.91, \$1.81 and \$4.06 per share, respectively, and such weighted-average fair value of options granted in 1999 for which the exercise price was less than the fair market value of such shares on the date of grant was \$5.64; all options granted in 2000 and 2001 were at exercise prices equal to the fair market value at the date of grant.

INTERNATIONAL SPECIALTY PRODUCTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 15. STOCK OPTION AND AWARD PLANS, LONG TERM INCENTIVE PLAN AND STOCK APPRECIATION RIGHTS -- (CONTINUED)

The following is a summary of the status of stock options outstanding and exercisable under the Plans as of December 31, 2001:

RANGE OF EXERCISE PRICES	STOCK OPTIONS OUTSTANDING			STOCK OPTIONS EXERCISABLE	
	SHARES (000'S)	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	SHARES (000'S)	WEIGHTED AVERAGE EXERCISE PRICE
\$ 3.781 - \$ 5.875	270	\$ 4.69	3.65 years	153	\$ 4.83
\$ 5.876 - \$ 8.938	882	7.47	2.01 years	866	7.46
\$ 8.939 - \$13.313	2,031	10.84	5.29 years	1,609	11.00
\$13.314 - \$18.625	683	15.64	5.45 years	530	15.50
Total	3,866	10.49	4.45 years	3,158	10.48
	=====			=====	

In February 2000, the Company adopted the 2000 Long Term Incentive Plan (the "Incentive Plan"), which authorizes the grant of incentive units ("Incentive Units") to eligible Company employees. The Incentive Plan is administered by the Committee, which in its sole discretion determines the number of Incentive Units to be granted to each employee. Generally, Incentive Units vest cumulatively, in 20% increments over five years, or in 10% increments every six months over five years. The value of Incentive Units is determined at the end of each fiscal quarter based on total Stockholders' Equity (excluding accumulated other comprehensive income and losses) divided by total common shares outstanding. The Incentive Plan will terminate five years after its effective date of February 2000, unless terminated sooner by the Committee.

In 2000, employees exchanged an aggregate of 2,032,994 stock options granted under the 1991 Plan (discussed above) for an aggregate of 1,508,062 Incentive Units. An additional 2,052,725 Incentive Units were granted during 2000. At December 31, 2000, 3,342,049 Incentive Units were outstanding. In 2001, 1,272,751 Incentive Units were granted, and as of December 31, 2001, 4,206,614 Incentive Units were outstanding. Compensation expense for such Incentive Units was \$2.0 and \$3.8 million in 2000 and 2001, respectively.

In 2000 and 2001, the Company issued restricted stock awards to two executives for 230,000 and 20,000 shares, respectively, of the Company's common stock pursuant to individual plan agreements. Such shares were issued subject to certain conditions with respect to transfer and other restrictions as prescribed by the plans. The restricted shares vest over a period of four to five years. Upon the issuance of the restricted shares, unearned compensation, equivalent to the market price of the shares on the date of grant, in the amount of \$1.3 and \$0.2 million in 2000 and 2001, respectively, was charged to Stockholders' Equity and is being amortized to compensation expense as the shares vest. Compensation expense in 2001 related to these restricted shares was \$0.3 million. Also in 2000 and 2001, the Company granted two executives stock bonus awards totaling 75,000 and 13,055 shares, respectively, of the Company's common stock and, in connection with such awards and the vesting of the restricted stock awards, also made loans totaling \$167,000 and \$160,000, respectively, to such executives to enable them to satisfy certain withholding tax obligations. These loans are evidenced by recourse promissory notes that bear interest at the rate of 6.45% per annum. The loans in 2000 for \$167,000 were repaid on April 15, 2001. The loans in 2001 for \$160,000 were converted to demand notes with interest at the Applicable Federal Rate for Short Term Instruments. The value of the stock awards on the date of issuance, totaling \$455,000 and \$100,000, was charged to compensation expense in 2000 and 2001, respectively. The excess of the cost of the treasury stock issued over the market value of the shares on the date of the awards, totaling \$275,000 and \$18,000, respectively, and the loans of \$167,000 and \$160,000, were reflected as reductions of "Additional paid-in capital."

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 15. STOCK OPTION AND AWARD PLANS, LONG TERM INCENTIVE PLAN AND STOCK APPRECIATION RIGHTS - (CONTINUED)

ISP Holdings issued options in 1996 to certain employees to purchase 138,983 shares of ISP Holdings' redeemable convertible preferred stock ("Preferred Stock"), exercisable at a price of \$111.44 per share. Each share of Preferred Stock was convertible, at the holder's option, into shares of common stock of ISP Holdings at a formula price based on the sum of the determined initial Book Value (as defined) plus interest on such Book Value at a specified rate. The options vested over seven years, subject to earlier vesting under certain circumstances including in connection with a change of control.

ISP Holdings also issued stock appreciation rights ("SARs") in 1996 related to 27,748 shares of ISP Holdings' common stock. The SARs represented the right to receive a cash payment based upon the appreciation in value of the specified number of shares of common stock of ISP Holdings over the sum of the determined initial Book Value (as defined) per share of common stock of ISP Holdings plus interest on such Book Value at a specified rate. The SARs vested over a five-year period, subject to earlier vesting under certain circumstances including in connection with a change of control.

As a result of the Merger (see Note 1), ISP Holdings' Preferred Stock option and SAR programs were terminated, and the Company charged \$7.9 million against operating income for cash payments made in 1998 for amounts vested at that time. Additional expense is being recorded over the remaining vesting period from the date of the Merger through 2003, including \$0.9 million in 1999, \$0.4 million in 2000 and \$0 in 2001.

NOTE 16. RELATED PARTY TRANSACTIONS

Included in the Consolidated Balance Sheets are the following net receivable balances with related parties, which arise from operating transactions between the Company and its affiliates, including the sales of mineral products and the management agreement, as discussed below:

DECEMBER 31,

	2000	2001
	-----	-----
	(THOUSANDS)	
Building Materials Corporation of America ("BMCA") ...	\$10,253	\$9,301
G-I Holdings	1,610	2
Other	(239)	(294)
	-----	-----
Receivable from related parties, net	\$11,624	\$9,009
	=====	=====

As discussed in Notes 8 and 19, in January 2001, G-I Holdings filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code due to its asbestos-related claims. As a result, the Company, as of December 31, 2000, established a reserve for doubtful receivables from G-I Holdings of \$2.7 million, representing \$0.6 million of unpaid management fees (see below) and \$2.1 million of other payments which the Company made on behalf of G-I Holdings.

BMCA, an indirect subsidiary of G-I Holdings and an affiliate of the Company, and its subsidiaries purchase all of their colored roofing granules requirements from the Company under a requirements contract, except for the requirements of certain of their roofing plants which are supplied by a third party. Effective January 1, 2002, this contract was extended by the parties to expire on December 31, 2002. In 2001, BMCA and its subsidiaries purchased a total of \$63.4 million of mineral products from the Company, representing 8.1% of the Company's total net sales and 78.6% of the Company's net sales of mineral products. Sales by the Company to BMCA and its subsidiaries totaled \$57.3 and \$59.3 million for 1999 and 2000, respectively. The receivable from BMCA and its subsidiaries for sales of mineral products as of December 31, 2000 and 2001 was \$7.7 and \$8.8 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 16. RELATED PARTY TRANSACTIONS -- (CONTINUED)

Pursuant to a management agreement (the "Management Agreement"), the Company, through a subsidiary, provides certain general management, administrative, legal, telecommunications, information and facilities services to BMCA. Charges by the Company for providing such services aggregated \$6.1, \$6.1 and \$6.8 million for 1999, 2000 and 2001, respectively, and are reflected as reductions of "Selling, general and administrative" expense. Such charges consist of management fees and other reimbursable expenses attributable to, or incurred by the Company for the benefit of, the respective parties, which are based on an estimate of the costs the Company incurs to provide such services. The receivable for such management fees as of December 31, 2000 and 2001 was \$1.5 and \$0.5 million, respectively. The Management Agreement also provides that the Company pay to a subsidiary of G-I Holdings lease payments for the use of one of the Company's sales offices. Effective January 1, 2001, the Management Agreement was amended to extend the term of the agreement through December 31, 2002, to provide for the automatic extension of the agreement for successive quarterly periods unless the agreement is terminated by a party, and to adjust the management fees payable thereunder. The Company and BMCA also allocate a portion of the management fees payable by BMCA under the Management Agreement to separate lease payments for the use of BMCA's headquarters. Based on the services provided by the Company in 2001 under the Management Agreement, the aggregate amount payable to the Company under the Management Agreement for 2002, net of the lease payments to the subsidiary of G-I Holdings, is expected to be approximately \$6.0 million.

In September 1999, the Company granted its President and Chief Executive Officer the right to purchase, and such officer purchased, 318,599 shares of its common stock held in treasury for a purchase price of \$9.563 per share, or an aggregate of \$3.047 million. Pursuant to the purchase agreement, the Company loaned such officer \$3.047 million to purchase the shares of common stock, which loan is evidenced by a recourse demand note with interest at the Applicable Federal Rate for Short Term Instruments. The principal amount of the note is payable in four installments from June 2001 through January 2004. However, if this officer remains continuously employed by the Company through each installment date, the principal amount due on such installment date will be forgiven. As the loan is forgiven, compensation expense is being recorded, including \$762,000 in the year 2001. The loan balance outstanding, \$2.3 million at December 31, 2001, is reflected as a reduction of "Additional paid-in capital". The difference between the market value of the shares issued of \$9.563 per share and the average cost per share in treasury of \$9.73 per share, amounting to \$53,000, was also reflected as a reduction of "Additional paid-in capital."

NOTE 17. BUSINESS SEGMENT INFORMATION

The Company is a leading multinational manufacturer of a broad spectrum of specialty chemicals and mineral products. In addition to the Mineral Products business segment, the Company operates its Specialty Chemicals business through three reportable business segments, organized based upon the markets for their products and the internal management of the Company, as follows:

PERSONAL CARE products serve as critical ingredients in the formulation of many well-known skin care, hair care, toiletry and cosmetic products. Skin care ingredients include sunscreen actives, waterproofing agents, preservatives, emollients and moisturizers. Hair care ingredients include a number of specially formulated fixative resins for hairsprays, mousses and gels, as well as thickeners and stabilizers for shampoos and conditioners.

PHARMACEUTICAL, FOOD AND BEVERAGE products are sold to these three government-regulated industries. In the pharmaceutical market, the Company's products serve as key ingredients in prescription and over-the-counter tablets, injectable prescription drugs and serums, cough syrups, antiseptics, toothpastes and denture adhesives. The Company's food products are comprised of the alginates business which was acquired in October 1999 (see Note 9). The Company's alginates products are used as stabilizers in many well-known consumer products. The Company's specialty polymers serve the beverage market by assuring the clarity and extending the shelf life of beer, wine and fruit juices.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 17. BUSINESS SEGMENT INFORMATION -- (CONTINUED)

PERFORMANCE CHEMICALS, FINE CHEMICALS AND INDUSTRIAL. The Company's Performance Chemicals business includes acetylene-based polymers, vinyl ether monomers, and advanced materials for consumer, agricultural and industrial applications. The Company's acetylene-based chemistry produces a number of performance polymers for use in a wide range of markets including coatings, agriculture, imaging, detergents, electronics and metalworking. The Company manufactures a broad range of highly specialized fine chemicals which are sold to the pharmaceutical, biotechnology, agricultural and imaging markets, including bulk pharmaceuticals, pharmaceutical intermediates, and pheromones for use in insect population measurement and control. The Company's Industrial business markets several intermediate and solvent products, such as butanediol, tetrahydrofuran (THF) and N-methyl pyrrolidone (NMP), which are sold primarily to industrial markets for use in high performance plastics, lubricating oil and chemical processing, electronics cleaning, and coatings.

MINERAL PRODUCTS. The Company manufactures ceramic-coated colored roofing granules that are sold primarily to the North American roofing industry for use in the production of asphalt roofing shingles.

The following segment data are presented based on the Company's internal management reporting system for the four reportable business segments. The Company evaluates segment performance based on operating income. Therefore, the measure of profit or loss that is reported to management for each segment is operating income. Interest expense, other income items and income taxes are not allocated to the business segments for management reporting. At this time, the Company's internal management reporting system does not report assets by segment for the three specialty chemicals reportable segments (Personal Care; Pharmaceutical, Food and Beverage; and Performance Chemicals, Fine Chemicals and Industrial), as many of the Company's plant assets are utilized by several of the segments. Therefore, the following asset-related segment data are presented only for Specialty Chemicals and Mineral Products.

Sales of Mineral Products to BMCA and its subsidiaries in 1999, 2000 and 2001 accounted for 65.7%, 82.5% and 78.6%, respectively, of the Company's net sales of Mineral Products, representing 7.3%, 7.6% and 8.1%, respectively, of the Company's total net sales. No other customer accounted for more than 5% of the Company's total net sales in 1999, 2000 or 2001.

INTERNATIONAL SPECIALTY PRODUCTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 17. BUSINESS SEGMENT INFORMATION -- (CONTINUED)

	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
	(MILLIONS)		
Net sales:			
Personal Care	\$ 187.1	\$ 189.0	\$ 196.2
Pharmaceutical, Food and Beverage	177.3	232.8	234.6
Performance Chemicals, Fine Chemicals and Industrial	335.7	290.2	275.7
Total Specialty Chemicals	700.1	712.0	706.5
Mineral Products(1)	87.3	71.9	80.7
Net sales	\$ 787.4	\$ 783.9	\$ 787.2
Operating income(2):			
Personal Care(3)	\$ 47.1	\$ 33.2	\$ 34.0
Pharmaceutical, Food and Beverage	40.7	48.0	48.5
Performance Chemicals, Fine Chemicals and Industrial	44.0	4.4	18.5
Total Specialty Chemicals	131.8	85.6	101.0
Mineral Products	16.1	9.4	10.7
Total segment operating income	147.9	95.0	111.7
Unallocated corporate office (expenses) income	(1.5)	0.8	0.4
(Provision) benefit for restructuring(4)	(0.4)	(14.4)	0.5
Total operating income	146.0	81.4	112.6
Interest expense and other income (expense), net	(69.5)	63.6	(111.6)
Income from continuing operations before income taxes	\$ 76.5	\$ 145.0	\$ 1.0
Assets:			
Specialty Chemicals	\$ 1,182.0	\$ 1,173.3	\$ 1,251.3
Mineral Products	153.3	152.9	147.5
General Corporate(5)	500.0	634.1	773.8
Total assets	\$ 1,835.3	\$ 1,960.3	\$ 2,172.6
Capital expenditures and acquisitions:			
Specialty Chemicals	\$ 101.5	\$ 53.8	\$ 95.9
Mineral Products	7.5	4.6	5.5
Total	\$ 109.0	\$ 58.4	\$ 101.4
Depreciation and amortization of goodwill and intangibles:			
Specialty Chemicals	\$ 53.1	\$ 55.9	\$ 59.1
Mineral Products	11.4	11.0	10.7
Unallocated corporate office	0.4	0.6	0.5
Total	\$ 64.9	\$ 67.5	\$ 70.3

(1) Includes sales to BMCA and its subsidiaries of \$57.3, \$59.3 and \$63.4 million for 1999, 2000 and 2001, respectively.

(2) Operating income for 1999 and 2000 for the three Specialty Chemicals business segments has been reclassified to conform to the 2001 presentation, based on a reallocation of certain manufacturing costs.

INTERNATIONAL SPECIALTY PRODUCTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 17. BUSINESS SEGMENT INFORMATION -- (CONTINUED)

(3) Personal Care operating income for the year 1999 includes a pre-tax gain of \$8.5 million from the sale of the pearlescent pigments product line. See Note 6.

(4) Of the \$14.4 million provision for restructuring in 2000, \$11.9 million relates to the Personal Care business segment and \$2.5 million relates to the Performance Chemicals, Fine Chemicals and Industrial business segment. Of the \$0.5 million reversal of restructuring reserves in 2001, \$0.4 million relates to the Personal Care business segment and \$0.1 million relates to the Performance Chemicals, Fine Chemicals and Industrial business segment.

(5) General Corporate assets primarily represent the Company's investments in trading and available-for-sale securities and other short-term investments which, in 2001, are held in a separate wholly owned subsidiary of the Company, ISP Investco Inc., for general corporate purposes and are not allocated to business segments. The year 2001 also includes \$307.9 million of restricted cash which was used to redeem the remaining 2003 Notes on January 14, 2002 (see Note 13).

NOTE 18. GEOGRAPHIC INFORMATION

Financial information set forth below for foreign operations represents sales and long-lived assets (property, plant and equipment) of foreign-based subsidiaries. Net sales are attributed to countries based on the location of customers and reflect the Company's internal management reporting system.

YEAR ENDED DECEMBER 31,

	1999	2000	2001
	-----	-----	-----
	(MILLIONS)		
Net sales:			
North America:			
United States	\$410.5	\$389.5	\$376.9
Canada	16.9	21.1	22.0
	-----	-----	-----
Total North America	427.4	410.6	398.9
	-----	-----	-----
Europe:			
Germany	89.0	73.0	78.6
United Kingdom	39.8	35.6	33.3
France	17.3	19.7	21.5
Italy	15.9	14.1	15.8
Spain	11.4	11.2	13.0
Belgium	5.6	10.5	13.1
Switzerland	7.7	9.3	11.3
Other European countries	47.4	54.0	54.0
	-----	-----	-----
Total Europe	234.1	227.4	240.6
	-----	-----	-----
Asia-Pacific:			
Japan	24.7	26.3	27.2
South Korea	9.3	13.9	16.0
China	12.7	15.9	9.2
Australia	11.5	10.9	10.2
Taiwan	9.6	11.7	8.8
Other Asia-Pacific countries	21.1	21.6	26.8
	-----	-----	-----
Total Asia-Pacific	88.9	100.3	98.2
	-----	-----	-----

INTERNATIONAL SPECIALTY PRODUCTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 18. GEOGRAPHIC INFORMATION -- (CONTINUED)

YEAR ENDED DECEMBER 31,

	1999	2000	2001
	-----	-----	-----
	(MILLIONS)		
Latin America:			
Mexico	12.3	19.6	19.4
Brazil	12.7	16.6	16.4
Other Latin American countries	12.0	9.4	13.7
	-----	-----	-----
Total Latin America	37.0	45.6	49.5
	-----	-----	-----
Total net sales	\$787.4	\$783.9	\$787.2
	=====	=====	=====
Property, plant and equipment, net:			
United States	\$496.1	\$495.1	\$493.9
Germany	48.0	43.7	36.9
United Kingdom	11.3	11.3	12.1
All other foreign countries	14.8	12.9	17.9
	-----	-----	-----
Total property, plant and equipment, net	\$570.2	\$563.0	\$560.8
	=====	=====	=====

Approximately 52% of the Company's sales in 2001 were in foreign countries which are subject to currency exchange rate fluctuation risks. See Note 2 for a discussion of the Company's policy to manage these risks. Certain countries in which the Company has sales are subject to additional risks, including high rates of inflation, exchange controls, government expropriation and general instability.

NOTE 19. COMMITMENTS AND CONTINGENCIES

ASBESTOS LITIGATION AGAINST G-I HOLDINGS

In January 2001, G-I Holdings filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code due to its asbestos-related bodily injury claims relating to the inhalation of asbestos fiber ("Asbestos Claims"). Neither the Company nor the assets or operations of the Company, which was operated as a division of a corporate predecessor of G-I Holdings prior to July 1986, have been involved in the manufacture or sale of asbestos products. The Company believes that it should have no legal responsibility for damages in connection with Asbestos Claims.

The Company has been advised by its Chairman of the Board, Samuel J. Heyman, that in 2000, three actions were commenced by creditors or potential creditors of G-I Holdings, two of which were filed against Mr. Heyman and the third against Mr. Heyman and certain other stockholders of G-I Holdings. Two of the actions commenced in 2000 were effectively stayed and the third was dismissed as a result of the G-I Holdings Chapter 11 filing. In September 2001, the Official Committee of Unsecured Creditors of G-I Holdings filed a substantially similar action against Mr. Heyman. The actions allege, among other things, that the distribution by G-I Holdings of the capital stock of the Company to Mr. Heyman and certain G-I Holdings stockholders in January 1997 was without fair consideration and a fraudulent conveyance. These actions seek, among other things, to set aside such distribution and to require Mr. Heyman and such other stockholders to return to G-I Holdings the capital stock of the Company held by them as well as an unspecified amount of damages. The defendants in such actions have advised the Company that they believe these actions are without merit and that the defendants intend to vigorously oppose them. However, if such actions were successful, the plaintiffs could seek to undo such distribution, which could result in a change of control of the Company. See Note 13 for a discussion of the Senior Credit Facilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 19. COMMITMENTS AND CONTINGENCIES -- (CONTINUED)

ENVIRONMENTAL LITIGATION

The Company, together with other companies, is a party to a variety of proceedings and lawsuits involving environmental matters ("Environmental Claims"), under the Comprehensive Environmental Response Compensation and Liability Act, Resource Conservation and Recovery Act and similar state laws, in which recovery is sought for the cost of cleanup of contaminated sites or remedial obligations are imposed, a number of which Environmental Claims are in the early stages or have been dormant for protracted periods.

The Company estimates that its liability with respect to all Environmental Claims (including those relating to its closed Linden, New Jersey plant described below), and certain other environmental compliance expenses, as of December 31, 2001, is approximately \$26.6 million, before reduction for insurance recoveries reflected on the Company's Consolidated Balance Sheet (discussed below) of \$21.7 million that relate to both past expenses and estimated future liabilities ("estimated recoveries"). While the Company cannot predict whether adverse decisions or events can occur in the future, in the opinion of the Company's management, the resolution of the Environmental Claims should not be material to the business, liquidity, results of operations, cash flows or financial position of the Company. However, adverse decisions or events, particularly as to increases in remedial costs, discovery of new contamination, assertion of natural resource damages, plans for development of the Linden, New Jersey property, and the liability and the financial responsibility of the Company's insurers and of the other parties involved at each site and their insurers, could cause the Company to increase its estimate of its liability in respect of those matters. It is not currently possible to estimate the amount or range of any additional liability.

After considering the relevant legal issues and other pertinent factors, the Company believes that it will receive the estimated recoveries and that the recoveries could be in excess of the current estimated liability for all Environmental Claims, although there can be no assurance in this regard. The Company believes it is entitled to substantially full defense and indemnity under its insurance policies for most Environmental Claims, although the Company's insurers have not affirmed a legal obligation under the policies to provide indemnity for those claims.

In June 1997, G-I Holdings commenced litigation against the insurers on behalf of itself and its predecessors, successors, subsidiaries and related corporate entities seeking amounts substantially in excess of the estimated recoveries. While the Company believes that its claims are meritorious, there can be no assurance that the Company will prevail in its efforts to obtain amounts equal to, or in excess of, the estimated recoveries.

In June 1989, the Company entered into a Consent Order with the New Jersey Department of Environmental Protection ("NJDEP") requiring the development of a remediation plan for its closed Linden, New Jersey plant and the maintenance of financial assurances (currently \$7.5 million) to guarantee the Company's performance. This Consent Order does not address any potential natural resource damage claims for which an estimate cannot currently be made. In April 1993, the NJDEP issued orders which require the prevention of discharge of contaminated groundwater and stormwater from the site and the elimination of other potential exposure concerns. The Company believes, although it cannot be certain, that, taking into account its plans for development of the site, it can comply with the NJDEP order at a cost of approximately \$17.0 million.

LEASE COMMITMENTS

Leases for certain equipment at the Company's mineral products plants are accounted for as capital leases and are included in "Property, plant and equipment, net," at December 31, 2000 and 2001 in the amount of \$0.9 and \$0.4 million, respectively. The Company also has operating leases for a sale-leaseback transaction related to its Freetown, Massachusetts manufacturing facility, which was entered into in 1998, and for transportation, production and data processing equipment and for various buildings and offices. Rental expense on operating

INTERNATIONAL SPECIALTY PRODUCTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 19. COMMITMENTS AND CONTINGENCIES -- (CONTINUED)

leases was \$17.3, \$17.9 and \$17.4 million for 1999, 2000 and 2001, respectively. Future minimum lease payments for properties which were held under long-term noncancelable leases as of December 31, 2001 were as follows:

	CAPITAL LEASES	OPERATING LEASES

	(THOUSANDS)	
2002	\$140	\$10,585
2003	144	9,739
2004	4	8,542
2005	1	7,251
2006	--	1,223
Later years	--	7,009

Total minimum payments	289	\$44,349
	=====	
Less interest included above	(18)	

Present value of net minimum lease payments ..	\$271	
	=====	

OTHER MATTERS

The Company has received site designation for the construction of a hazardous waste treatment, storage and disposal facility at its Linden, New Jersey property and has received approval from the New Jersey Turnpike Authority for a direct access ramp extension from the New Jersey Turnpike to the site. If the Company is successful in securing the necessary permits to construct and operate the hazardous waste facility and decides to proceed with this project, the Company would develop and operate the facility in a separate subsidiary, either on its own or in a joint venture with a suitable partner. The Company estimates that the cost of constructing the facility will be approximately \$100 million and, if approved, the facility is anticipated to be in operation three years after commencement of construction. The Company anticipates utilizing internally generated cash and/or seeking project or other independent financing for this project. Accordingly, the Company would not expect such facility to impact materially its liquidity or capital resources. The Company is also investigating other development opportunities at this site consistent with a plan by the County of Union to re-develop the Tremley Point area of Linden. The Company expects that related planning and evaluation efforts will continue through 2002. The net book value of the Linden property at December 31, 2001 was \$15.8 million.

See Note 8 for information regarding additional contingencies.

INTERNATIONAL SPECIALTY PRODUCTS INC.

SUPPLEMENTARY DATA (UNAUDITED)

QUARTERLY FINANCIAL DATA (UNAUDITED)

	2000 BY QUARTER				2001 BY QUARTER			
	FIRST	SECOND	THIRD	FOURTH	FIRST	SECOND	THIRD	FOURTH
	(MILLIONS, EXCEPT PER SHARE AMOUNTS)							
Net sales	\$197.9	\$200.3	\$195.9	\$189.8	\$203.2	\$203.3	\$188.6	\$192.1
Cost of products sold	129.4	127.0	129.7	128.8	133.3	122.3	114.9	130.3
Gross profit	\$ 68.5	\$ 73.3	\$ 66.2	\$ 61.0	\$ 69.9	\$ 81.0	\$ 73.7	\$ 61.8
Operating income(1)	\$ 25.6	\$ 29.8	\$ 23.9	\$ 2.1	\$ 25.9	\$ 35.6	\$ 30.5	\$ 20.6
Income (loss) before income taxes	\$ 11.8	\$ 15.2	\$ 41.5	\$ 76.5	\$ 35.4	\$ 0.2	\$ (2.9)	\$ (31.7)
Income tax (provision) benefit	(4.1)	(5.4)	(14.5)	(26.9)	(12.4)	(0.1)	1.0	11.1
Income (loss) before cumulative effect of change in accounting principle	7.7	9.8	27.0	49.6	23.0	0.1	(1.9)	(20.6)
Cumulative effect of change in accounting principle, net of income tax benefit	--	--	--	--	(0.4)	--	--	--
Net income (loss)	\$ 7.7	\$ 9.8	\$27.0	\$ 49.6	\$ 22.6	\$ 0.1	\$ (1.9)	\$ (20.6)
Earnings per common share(2):								
Basic:								
Income (loss) before cumulative effect of accounting change	\$.11	\$.14	\$.40	\$.74	\$.35	\$--	\$ (.03)	\$ (.32)
Cumulative effect of accounting change	--	--	--	--	(.01)	--	--	--
Net income (loss)	\$.11	\$.14	\$.40	\$.74	\$.34	\$--	\$ (.03)	\$ (.32)
Diluted:								
Income (loss) before cumulative effect of accounting change	\$.11	\$.14	\$.40	\$.74	\$.34	\$--	\$ (.03)	\$ (.32)
Cumulative effect of accounting change	--	--	--	--	(.01)	--	--	--
Net income (loss)	\$.11	\$.14	\$.40	\$.74	\$.34	\$--	\$ (.03)	\$ (.32)

(1) Operating income for the fourth quarter of 2000 reflects a provision for restructuring of \$14.4 million. See Note 4 to Consolidated Financial Statements.

(2) Earnings per share are calculated separately for each quarter and the full year. Accordingly, annual earnings per share will not necessarily equal the total of the quarters.

SCHEDULE II
INTERNATIONAL SPECIALTY PRODUCTS INC.
VALUATION AND QUALIFYING ACCOUNTS

YEAR ENDED DECEMBER 31, 1999
(THOUSANDS)

DESCRIPTION	BALANCE JANUARY 1, 1999	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS	BALANCE DECEMBER 31, 1999
Valuation and Qualifying Accounts Deducted From Assets to Which They Apply:				
Allowance for doubtful accounts	\$ 2,494	\$ 2,026	\$ 1,109 (a)	\$ 3,411
Reserve for inventory market valuation.	21,360	5,063	11,275 (a)	15,148
Reserves for restructuring and staff reduction .	9,342	2,273 (c)	10,291 (d)	1,324

YEAR ENDED DECEMBER 31, 2000
(THOUSANDS)

DESCRIPTION	BALANCE JANUARY 1, 2000	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS	OTHER	BALANCE DECEMBER 31, 2000
Valuation and Qualifying Accounts Deducted From Assets to which They Apply:					
Allowance for doubtful accounts	\$ 3,411	\$ 1,934	\$ 434 (a)	\$ --	\$ 4,911
Reserve for inventory market valuation ...	15,148	11,902	8,535 (a)	3,798 (b)	22,313
Reserves for restructuring and staff reduction .	1,324	3,613	1,324	--	3,613

YEAR ENDED DECEMBER 31, 2001
(THOUSANDS)

DESCRIPTION	BALANCE JANUARY 1, 2001	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS	BALANCE DECEMBER 31, 2001
Valuation and Qualifying Accounts Deducted From Assets to which They Apply:				
Allowance for doubtful accounts	\$ 4,911	\$ 2,474	\$ 1,913 (a)	\$ 5,472
Reserve for inventory market valuation ...	22,313	10,427	4,708 (a)	28,032
Reserves for restructuring and staff reduction .	3,613	--	3,613 (e)	--

(a) Represents write-off of uncollectible accounts net of recoveries, and the effects of foreign currency translation.

(b) Represents balance acquired in acquisitions.

(c) Reflects a reserve established for a staff reduction program in 1999 (see Note 4 to Consolidated Financial Statements).

(d) Includes \$1,863 of excess reserves which were reversed and credited to the Consolidated Statement of Income (see Note 4 to Consolidated Financial Statements).

(e) Includes \$471 of excess reserves which were reversed and credited to the Consolidated Statement of Income (see Note 4 to Consolidated Financial Statements).

INTERNATIONAL SPECIALTY HOLDINGS INC.

**SERIES A AND SERIES B
10 5/8% SENIOR SECURED NOTES DUE 2009**

INDENTURE

Dated as of December 13, 2001

Wilmington Trust Company

Trustee

CROSS-REFERENCE TABLE*

TRUST INDENTURE ACT SECTION	INDENTURE SECTION
310 (a) (1)	7.10
(a) (2)	7.10
(a) (3)	N.A.
(a) (4)	N.A.
(a) (5)	7.10
(b)	7.10
(c)	N.A.
311 (a)	7.11
(b)	7.11
(c)	N.A.
312 (a)	2.05
(b)	12.03
(c)	12.03
313 (a)	7.06
(b) (2)	7.07
(c)	7.06;13.02
(d)	7.06
314 (a)	4.03;13.02
(c) (1)	12.04
(c) (2)	12.04
(c) (3)	N.A.
(e)	12.05
(f)	N.A.
315 (a)	7.01
(b)	7.05;13.02
(c)	7.01
(d)	7.01
(e)	6.11
316 (a) (last sentence)	2.09
(a) (1) (A)	6.05
(a) (1) (B)	6.04
(a) (2)	N.A.
(b)	6.07
(c)	2.12
317 (a) (1)	6.08
(a) (2)	6.09
(b)	2.04
318 (a)	12.01
(b)	N.A.
(c)	12.01

N.A. means not applicable.

* This Cross Reference Table is not part of the Indenture.

TABLE OF CONTENTS

PAGE

ARTICLE 1.

DEFINITIONS AND INCORPORATION

BY REFERENCE

Section 1.01.	Definitions.....	1
Section 1.02.	Other Definitions.....	15
Section 1.03.	Incorporation by Reference of Trust Indenture Act.....	16
Section 1.04.	Rules of Construction.....	16

ARTICLE 2.

THE NOTES

Section 2.01.	Form and Dating.....	16
Section 2.02.	Execution and Authentication.....	17
Section 2.03.	Registrar and Paying Agent.....	18
Section 2.04.	Paying Agent to Hold Money in Trust.....	18
Section 2.05.	Holder Lists.....	18
Section 2.06.	Transfer and Exchange.....	19
Section 2.07.	Replacement Notes.....	30
Section 2.08.	Outstanding Notes.....	30
Section 2.09.	Treasury Notes.....	31
Section 2.10.	Temporary Notes.....	31
Section 2.11.	Cancellation.....	31
Section 2.12.	Defaulted Interest.....	31
Section 2.13.	CUSIP Numbers.....	32
Section 2.14.	Record Date.....	32

ARTICLE 3.

REDEMPTION AND PREPAYMENT

Section 3.01.	Notices to Trustee.....	32
Section 3.02.	Selection of Notes to Be Redeemed.....	32
Section 3.03.	Notice of Redemption.....	32
Section 3.04.	Effect of Notice of Redemption.....	33
Section 3.05.	Deposit of Redemption Price.....	33
Section 3.06.	Notes Redeemed in Part.....	34
Section 3.07.	Optional Redemption.....	34
Section 3.08.	Mandatory Redemption.....	34
Section 3.09.	Offer to Purchase by Application of Excess Proceeds.....	34

ARTICLE 4.

COVENANTS

Section 4.01.	Payment of Notes.....	36
Section 4.02.	Maintenance of Office or Agency.....	36
Section 4.03.	Reports.....	37
Section 4.04.	Compliance Certificate.....	37
Section 4.05.	Taxes.....	38
Section 4.06.	Stay, Extension and Usury Laws.....	38
Section 4.07.	Restricted Payments.....	38
Section 4.08.	Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries.....	40

Section 4.09.	Incurrence of Indebtedness and Issuance of Preferred Stock.....	41
Section 4.10.	Asset Sales.....	43
Section 4.11.	Transactions with Affiliates.....	44
Section 4.12.	Liens.....	45
Section 4.13.	Business Activities.....	45
Section 4.14.	Corporate Existence.....	45
Section 4.15.	Offer to Repurchase Upon Change of Control.....	45
Section 4.16.	Payments for Consent.....	47
Section 4.17.	Designation of Restricted and Unrestricted Subsidiaries.....	47
Section 4.18.	Changes in Covenants When Notes Rated Investment Grade.....	47
Section 4.19.	Escrow Account.....	47

ARTICLE 5. SUCCESSORS

Section 5.01.	Merger, Consolidation, or Sale of Assets.....	48
Section 5.02.	Successor Corporation Substituted.....	48

ARTICLE 6. DEFAULTS AND REMEDIES

Section 6.01.	Events of Default.....	49
Section 6.02.	Acceleration.....	50
Section 6.03.	Other Remedies.....	51
Section 6.04.	Waiver of Past Defaults.....	51
Section 6.05.	Control by Majority.....	51
Section 6.06.	Limitation on Suits.....	51
Section 6.07.	Rights of Holders of Notes to Receive Payment.....	52
Section 6.08.	Collection Suit by Trustee.....	52
Section 6.09.	Trustee May File Proofs of Claim.....	52
Section 6.10.	Priorities.....	53
Section 6.11.	Undertaking for Costs.....	53

ARTICLE 7. TRUSTEE

Section 7.01.	Duties of Trustee.....	53
Section 7.02.	Rights of Trustee.....	54
Section 7.03.	Individual Rights of Trustee.....	55
Section 7.04.	Trustee's Disclaimer.....	55
Section 7.05.	Notice of Defaults.....	55
Section 7.06.	Reports by Trustee to Holders of the Notes.....	55
Section 7.07.	Compensation and Indemnity.....	56
Section 7.08.	Replacement of Trustee.....	56
Section 7.09.	Successor Trustee by Merger, etc.....	57
Section 7.10.	Eligibility; Disqualification.....	57
Section 7.11.	Preferential Collection of Claims Against Issuer.....	57

ARTICLE 8. LEGAL DEFEASANCE AND COVENANT DEFEASANCE

Section 8.01.	Option to Effect Legal Defeasance or Covenant Defeasance.....	58
Section 8.02.	Legal Defeasance and Discharge.....	58
Section 8.03.	Covenant Defeasance.....	58
Section 8.04.	Conditions to Legal or Covenant Defeasance.....	59

Section 8.05.	Deposited Money and Government Securities to be Held in Trust;	
	Other Miscellaneous Provisions	60
Section 8.06.	Repayment to Issuer.....	60
Section 8.07.	Reinstatement.....	60

ARTICLE 9.
AMENDMENT, SUPPLEMENT AND WAIVER

Section 9.01.	Without Consent of Holders of Notes.....	61
Section 9.02.	With Consent of Holders of Notes.....	61
Section 9.03.	Compliance with Trust Indenture Act.....	63
Section 9.04.	Revocation and Effect of Consents.....	63
Section 9.05.	Notation on or Exchange of Notes.....	63
Section 9.06.	Trustee to Sign Amendments, etc.....	63

ARTICLE 10.
Collateral and security

Section 10.01.	Pledge Agreement.....	63
Section 10.02.	Recording and Opinions.....	64
Section 10.03.	Release of Collateral.....	64
Section 10.04.	Certificates of the Issuer.....	65
Section 10.05.	Certificates of the Trustee.....	65
Section 10.06.	Authorization of Actions to Be Taken by the Trustee Under the Pledge Agreement.....	65
Section 10.07.	Authorization of Receipt of Funds by the Trustee Under the Pledge Agreement.....	66
Section 10.08.	Termination of Security Interest.....	66

ARTICLE 11.
satisfaction and discharge

Section 11.01.	Satisfaction and Discharge.....	66
Section 11.02.	Application of Trust Money.....	67

ARTICLE 12.
MISCELLANEOUS

Section 12.01.	Trust Indenture Act Controls.....	67
Section 12.02.	Notices.....	67
Section 12.03.	Communication by Holders of Notes with Other Holders of Notes.....	69
Section 12.04.	Certificate and Opinion as to Conditions Precedent.....	69
Section 12.05.	Statements Required in Certificate or Opinion.....	69
Section 12.06.	Rules by Trustee and Agents.....	69
Section 12.07.	No Personal Liability of Directors, Officers, Employees and Stockholders.....	69
Section 12.08.	Governing Law.....	70
Section 12.09.	No Adverse Interpretation of Other Agreements.....	70
Section 12.10.	Successors.....	70
Section 12.11.	Severability.....	70
Section 12.12.	Counterpart Originals.....	70
Section 12.13.	Table of Contents, Headings, etc.....	70

EXHIBITS

Exhibit A1	FORM OF NOTE
Exhibit A2	FORM OF REGULATION S TEMPORARY GLOBAL NOTE
Exhibit B	FORM OF CERTIFICATE OF TRANSFER

Exhibit C	FORM OF CERTIFICATE OF EXCHANGE
Exhibit D	FORM OF CERTIFICATE OF ACQUIRING INSTITUTIONAL ACCREDITED INVESTOR
Exhibit E	FORM OF PLEDGE AGREEMENT

INDENTURE dated as of December 13, 2001 among INTERNATIONAL SPECIALTY HOLDINGS INC., a Delaware corporation (the "ISSUER") and WILMINGTON TRUST COMPANY, as trustee (the "TRUSTEE").

The Issuer and the Trustee agree as follows for the benefit of each other and for the equal and ratable benefit of the Holders of the 10 5/8% Series A Senior Secured Notes due 2009 (the "SERIES A NOTES") and the 10 5/8% Series B Senior Secured Notes due 2011 (the "SERIES B NOTES");

**ARTICLE 1.
DEFINITIONS AND INCORPORATION
BY REFERENCE**

SECTION 1.01. DEFINITIONS.

"144A GLOBAL NOTE" means a global note substantially in the form of Exhibit A1 hereto bearing the Global Note Legend and the Private Placement Legend and deposited with or on behalf of, and registered in the name of, the Depositary or its nominee that will be issued in a denomination equal to the outstanding principal amount of the Notes sold in reliance on Rule 144A.

"2003 NOTES" means the 9% Senior Notes due 2003 of ISP.

"2011 NOTE INDENTURE" means that certain Indenture dated as of June 27, 2001 by and among ISP Chemco Inc., ISP Chemicals Inc., ISP Minerals Inc. and ISP Technologies Inc., the guarantors signatory thereto and Wilmington Trust Company, as trustee, as amended, modified, renewed, refunded, replaced or refinanced from time to time.

"2011 NOTES" means the 10 1/4% Senior Subordinated Notes due 2011 of ISP Chemco Inc., ISP Chemicals Inc., ISP Minerals Inc. and ISP Technologies Inc.

"ACQUIRED DEBT" means, with respect to any specified Person: (1) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging with or into, or becoming a Subsidiary of, such specified Person; and (2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

"ADDITIONAL NOTES" means any Notes (other than the Initial Notes) issued under this Indenture in accordance with Sections 2.02 and 4.09 hereof (including the Exchange Notes), as part of the same series as the Initial Notes. For the avoidance of doubt, all Notes (other than the Initial Notes) issued under this Indenture shall be deemed to have been issued as part of the same series as the Initial Notes notwithstanding that such Notes have different dates from which interest accrues thereon, have different "CUSIP" numbers or may otherwise be referred to as different "A" series.

"AFFILIATE" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control," as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise. For purposes of this definition, the terms "controlling," "controlled by" and "under common control with" have correlative meanings.

"AGENT" means any Registrar, co-registrar, Paying Agent or additional paying agent.

"APPLICABLE PROCEDURES" means, with respect to any transfer or exchange of or for beneficial interests in any Global Note, the rules and procedures of the Depositary, Euroclear and Clearstream that apply to such transfer or exchange.

"ASSET SALE" means: (1) the sale, lease, conveyance or other disposition of any assets or rights, other than sales of inventory in the ordinary course of business consistent with past practices; provided that the sale, conveyance or other disposition of all or substantially all of the assets of the Issuer and its Subsidiaries taken as a whole will be governed by the provisions of Sections 4.15 and 5.01 and not by the provisions of Section 4.10 hereof; and (2) the issuance of Equity Interests in the Issuer's Subsidiaries or the sale of Equity Interests in any of the Issuer's Subsidiaries.

Notwithstanding the preceding, the following items will not be deemed to be Asset Sales: (1) a transfer of assets between or among the Issuer and its Restricted Subsidiaries; (2) an issuance of Equity Interests by a Subsidiary to the Issuer or to a Restricted Subsidiary of the Issuer; (3) the sale of inventory in the ordinary course of business on ordinary business terms; (4) the sale or other disposition of cash or Cash Equivalents; (5) the sale or other disposition of obsolete equipment; (6) the sale of accounts receivable pursuant to a Qualified Securitization Program; (7) the sale or other disposition for consideration not to exceed \$20.0 million of real property currently owned by the Issuer or the Issuer's Subsidiaries located in Belleville, New Jersey and Linden, New Jersey; (8) the sale or other disposition for consideration not to exceed \$25.0 million of the capital stock or assets of a Foreign Subsidiary of the Issuer acquired from a fine chemicals research and development company; and (9) a Restricted Payment or Permitted Investment that is permitted by Section 4.07 hereof.

"ATTRIBUTABLE DEBT" in respect of a sale and leaseback transaction means, at the time of determination, the present value of the obligation of the lessee for net rental payments during the remaining term of the lease included in such sale and leaseback transaction including any period for which such lease has been extended or may, at the option of the lessor, be extended. Such present value shall be calculated using a discount rate equal to the rate of interest implicit in such transaction, determined in accordance with GAAP.

"BANKRUPTCY LAW" means Title 11, U.S. Code or any similar federal or state law for the relief of debtors.

"BENEFICIAL OWNER" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular "person" (as that term is used in Section 13d-3 of the Exchange Act), such "person" will be deemed to have beneficial ownership of all securities that such "person" has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition. The terms "Beneficially Owns" and "Beneficially Owned" have a corresponding meaning.

"BMCA" means Building Materials Corporation of America and any and all successors thereto.

"BOARD OF DIRECTORS" means: (1) with respect to a corporation, the board of directors of the corporation; (2) with respect to a partnership, the Board of Directors of the general partner of the partnership; and (3) with respect to any other Person, the board or committee of such Person serving a similar function.

"BROKER-DEALER" has the meaning set forth in the Registration Rights Agreement.

"BUSINESS DAY" means any day other than a Legal Holiday.

"CAPITAL LEASE OBLIGATION" means, at the time any determination is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet in accordance with GAAP.

"CAPITAL STOCK" means: (1) in the case of a corporation, corporate stock; (2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock; (3) in the case of a partnership or limited liability company, partnership or membership interests (whether general or limited); and (4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"CASH EQUIVALENTS" means: (1) United States dollars; (2) securities issued or directly and fully guaranteed or insured by the United States government or any agency or instrumentality of the United States government (provided that the full faith and credit of the United States is pledged in support of those securities) having maturities of not more than six months from the date of acquisition; (3) certificates of deposit and eurodollar time deposits with maturities of six months or less from the date of acquisition, bankers' acceptances with maturities not exceeding six months and overnight bank deposits, in each case, with any domestic commercial bank having capital and surplus in excess of \$500.0 million and a Thomson Bank Watch Rating of "B" or better; (4) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (2) and (3) above entered into with any financial institution meeting the qualifications specified in clause (3) above; (5) commercial paper rated as least P-1 by Moody's Investors Services, Inc. or at least A-1 by Standard & Poor's Ratings Services and in each case maturing within six months after the date of acquisition; and (6) money market funds at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (5) of this definition.

"CHANGE OF CONTROL" means the occurrence of any of the following: (1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Issuer and the Issuer's Subsidiaries taken as a whole to any "person" (as that term is used in Section 13d-3 of the Exchange Act) other than Samuel J. Heyman or any Related Party; (2) the adoption of a plan relating to the Issuer's liquidation or dissolution; (3) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any "person" (as defined above), other than Samuel J. Heyman and his Related Parties, becomes the Beneficial Owner of more of the Issuer's Voting Stock, measured by voting power rather than number of shares, than Mr. Heyman and his Related Parties; (4) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that Mr. Heyman and his Related Parties are the Beneficial Owners of less than 25% of the Issuer's Voting Stock, measured by voting power rather than number of shares, and any "person" (as defined above), other than Mr. Heyman and his Related Parties, Beneficially Owns more than one-half of the Issuer's Voting Stock, measured by voting power rather than number of shares, owned by Mr. Heyman and his Related Parties; (5) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that Mr. Heyman and his Related Parties are the Beneficial Owners of less than 10% of the Issuer's Voting Stock, measured by voting power rather than number of shares; or (6) the first day on which a majority of the members of the Issuer's Board of Directors are not Continuing Directors.

"CLEARSTREAM" means Clearstream Banking, S.A.

"CLOSING DATE" means December 13, 2001.

"COLLATERAL" means any assets of the Issuer defined as Collateral in the Pledge Agreement.

"CONSOLIDATED CASH FLOW" means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period plus:

(1) provision for taxes based on income or profits of such Person and its Restricted Subsidiaries for such period, to the extent that such provision for taxes was deducted in computing such Consolidated Net Income; plus (2) consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued and whether or not capitalized (including, without limitation, amortization of debt issuance costs and original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, imputed interest with respect to Attributable Debt, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net of the effect of all payments made or received pursuant to Hedging Obligations), to the extent that any such expense was deducted in computing such Consolidated Net Income; plus

(3) depreciation, amortization (including amortization of goodwill and other intangibles but excluding amortization of prepaid cash expenses that were paid in a prior period) and other non-cash items (excluding any such non-cash item to the extent that it represents an accrual of or reserve for cash expenses in any future period or amortization of a prepaid cash expense that was paid in a prior period) of such Person and its Subsidiaries for such period to the extent that such depreciation, amortization and other non-cash items were deducted in computing such Consolidated Net Income; plus (4) provision for restructuring, staff reductions and impairment loss for the year ended December 31, 2000 of such Person and its Subsidiaries for such period to the extent that such provision was deducted in computing such Consolidated Net Income; minus (5) non-cash items increasing such Consolidated Net Income for such period, other than the accrual of revenue in the ordinary course of business, in each case, on a consolidated basis and determined in accordance with GAAP.

"CONSOLIDATED NET INCOME" means, with respect to any specified Person for any period, the aggregate of the Net Income of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in accordance with GAAP; provided that: (1) the Net Income (but not loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or distributions paid in cash to the specified Person or a Wholly Owned Restricted Subsidiary of the Person; (2) the Net Income of any Person acquired in a pooling of interests transaction for any period prior to the date of such acquisition will be excluded; and (3) the cumulative effect of a change in accounting principles will be excluded.

"CONSOLIDATED NET WORTH" means, with respect to any specified Person as of any date, the sum of: (1) the consolidated equity of the common stockholders of such Person and its consolidated Subsidiaries as of such date; plus (2) the respective amounts reported on such Person's balance sheet as of such date with respect to any series of preferred stock (other than Disqualified Stock) that by its terms is not entitled to the payment of dividends unless such dividends may be declared and paid only out of net earnings in respect of the year of such declaration and payment, but only to the extent of any cash received by such Person upon issuance of such preferred stock.

"CONTINUING DIRECTORS" means, as of any date of determination, any member of the Issuer's Board of Directors who: (1) was a member of such Board of Directors on the Closing Date; or (2) was nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board at the time of such nomination or election.

"CORPORATE TRUST OFFICE OF THE TRUSTEE" shall be at the address of the Trustee specified in Section 13.02 hereof or such other address as to which the Trustee may give notice to the Issuer.

"CREDIT AGREEMENT" means that certain Credit Agreement, dated as of June 27, 2001, as amended by Amendment No. 1 to Credit Agreement, dated as of July 24, 2001, by and among ISP Chemco Inc., ISP Chemicals Inc., ISP Technologies Inc. and ISP Minerals Inc., as borrowers, the guarantors signatory

thereto and The Chase Manhattan Bank, as administrative agent, including any related notes, guarantees, collateral documents, instruments and agreements executed in connection therewith, and in each case as amended, modified, renewed, refunded, replaced or refinanced from time to time.

"CUSTODIAN" means the Trustee, as custodian with respect to the Notes in global form, or any successor entity thereto.

"DEFAULT" means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

"DEFINITIVE NOTE" means a certificated Note registered in the name of the Holder thereof and issued in accordance with Section 2.06 hereof, substantially in the form of Exhibit A1 hereto except that such Note shall not bear the Global Note Legend and shall not have the "Schedule of Exchanges of Interests in the Global Note" attached thereto.

"DEPOSITARY" means, with respect to the Notes issuable or issued in whole or in part in global form, the Person specified in Section 2.03 hereof as the Depositary with respect to the Notes, and any and all successors thereto appointed as depositary hereunder and having become such pursuant to the applicable provision of this Indenture.

"DISQUALIFIED STOCK" means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder of the Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Capital Stock, in whole or in part, on or prior to the date that is 91 days after the date on which the notes mature. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders of the Capital Stock have the right to require the Issuer to repurchase such Capital Stock upon the occurrence of a change of control or an asset sale will not constitute Disqualified Stock if the terms of such Capital Stock provide that the Issuer may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with Section 4.07 hereof.

"EQUITY INTERESTS" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"EQUITY OFFERINGS" means (1) issuances and sales of the Issuer's Equity Interests (other than Disqualified Stock) and (2) contributions of equity to the Issuer.

"ESCROW ACCOUNT" means an escrow account into which the Issuer shall be required to deposit a portion of the proceeds of the Initial Notes pursuant to the Escrow Agreement.

"ESCROW AGREEMENT" means the Pledge and Escrow Agreement dated as of the date of this Indenture, by and between the Issuer and Wilmington Trust Company, as escrow agent, as such agreement may be amended, modified or supplemented from time to time.

"EUROCLEAR" means Euroclear Bank S.A./N.V., as operator of the Euroclear system.

"EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

"EXCHANGE NOTES" means the Notes issued in the Exchange Offer pursuant to Section 2.06(f) hereof.

"EXCHANGE OFFER" has the meaning set forth in the Registration Rights Agreement.

"EXCHANGE OFFER REGISTRATION STATEMENT" has the meaning set forth in the Registration Rights Agreement.

"EXISTING INDEBTEDNESS" means Indebtedness of the Issuer and its Subsidiaries (other than Indebtedness under the Credit Agreement) in existence on the Closing Date, until such amounts are repaid.

"FIXED CHARGES" means, with respect to any specified Person for any period, the sum, without duplication, of: (1) the consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued, including, without limitation, to the extent included in consolidated interest expense in accordance with GAAP, amortization of debt issuance costs and original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, imputed interest with respect to Attributable Debt, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net of the effect of all payments made or received pursuant to Hedging Obligations; plus (2) the consolidated interest of such Person and its Restricted Subsidiaries that was capitalized during such period; plus (3) any interest expense on Indebtedness of another Person that is guaranteed by such Person or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries, whether or not such guarantee or Lien is called upon; plus (4) the product of (a) all dividends, whether paid or accrued and whether or not in cash, on any series of preferred stock of such Person or any of its Restricted Subsidiaries, other than dividends on Equity Interests payable solely in the Issuer's Equity Interests (other than Disqualified Stock) or to the Issuer or a Restricted Subsidiary of the Issuer, times (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of such Person, expressed as a decimal, in each case, on a consolidated basis and in accordance with GAAP.

"FIXED CHARGE COVERAGE RATIO" means with respect to any specified Person for any period, the ratio of the Consolidated Cash Flow of such Person and its Restricted Subsidiaries for such period to the Fixed Charges of such Person for such period. In the event that the specified Person or any of its Restricted Subsidiaries incurs, assumes, guarantees, repays, repurchases or redeems any Indebtedness (other than ordinary working capital borrowings) or issues, repurchases or redeems preferred stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated and on or prior to the date on which the event for which the calculation of the Fixed Charge Coverage Ratio is made (the "Calculation Date"), then the Fixed Charge Coverage Ratio will be calculated giving pro forma effect to such incurrence, assumption, guarantee, repayment, repurchase or redemption of Indebtedness, or such issuance, repurchase or redemption of preferred stock, and the use of the proceeds therefrom as if the same had occurred at the beginning of the applicable four-quarter reference period.

In addition, for purposes of calculating the Fixed Charge Coverage Ratio: (1) acquisitions that have been made by the specified Person or any of its Restricted Subsidiaries, including through mergers or consolidations and including any related financing transactions, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date will be given pro forma effect as if they had occurred on the first day of the four-quarter reference period and Consolidated Cash Flow for such reference period will be calculated on a pro forma basis in accordance with Regulation S-X under the Securities Act, but without giving effect to clause (3) of the proviso set forth in the definition of Consolidated Net Income; (2) the Consolidated Cash Flow attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, will be excluded; and (3) the Fixed Charges attributable to discontinued

operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, will be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the specified Person or any of its Restricted Subsidiaries following the Calculation Date.

"FOREIGN SUBSIDIARY" means any Subsidiary of the Issuer formed under the laws of any jurisdiction other than the United States or any political subdivision thereof and substantially all of the assets of which are located outside of the United States or that conducts substantially all of its business outside of the United States.

"GAAP" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession, which are in effect from time to time.

"GLOBAL NOTES" means, individually and collectively, each of the Restricted Global Notes and the Unrestricted Global Notes, substantially in the form of Exhibit A1 hereto issued in accordance with Section 2.01, 2.06(b)(iv), 2.06(d)(ii) or 2.06(f) hereof.

"GLOBAL NOTE LEGEND" means the legend set forth in Section 2.06(g)(ii), which is required to be placed on all Global Notes issued under this Indenture.

"HEDGING OBLIGATIONS" means, with respect to any specified Person, the obligations of such Person under: (1) interest rate swap agreements, interest rate cap agreements and interest rate collar agreements; and (2) other agreements or arrangements designed to protect such Person against fluctuations in interest rates.

"HOLDER" means a Person in whose name a Note is registered.

"IAI GLOBAL NOTE" means a global note substantially in the form of Exhibit A1 hereto bearing the Global Note Legend and the Private Placement Legend and deposited with or on behalf of and registered in the name of the Depositary or its nominee that will be issued in a denomination equal to the outstanding principal amount of the Notes sold to Institutional Accredited Investors.

"INDEBTEDNESS" means, with respect to any specified Person, any indebtedness of such Person, whether or not contingent: (1) in respect of borrowed money; (2) evidenced by bonds (excluding appeal bonds), notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof); (3) in respect of banker's acceptances; (4) representing Capital Lease Obligations; (5) representing the balance deferred and unpaid of the purchase price of any property, except any such balance that constitutes an accrued expense or trade payable; or (6) representing any Hedging Obligations, if and to the extent any of the preceding items (other than letters of credit) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with GAAP. In addition, the term "Indebtedness" includes all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, the guarantee by the specified Person of any indebtedness of any other Person. The amount of any Indebtedness outstanding as of any date will be: (1) the accreted value of the Indebtedness, in the case of any Indebtedness issued with original issue discount; and (2) the principal amount of the Indebtedness, together with any interest on the Indebtedness that is more than 30 days past due, in the case of any other Indebtedness.

"INDENTURE" means this Indenture, as amended or supplemented from time to time.

"INDIRECT PARTICIPANT" means a Person who holds a beneficial interest in a Global Note through a Participant.

"INITIAL NOTES" means the first \$200,000,000 aggregate principal amount of Notes issued under this Indenture on the date hereof.

"INSTITUTIONAL ACCREDITED INVESTOR" means an institution that is an "accredited investor" as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act, who are not also QIBs.

"INTEREST PAYMENT DATE" shall have the meaning set forth on the face of the Notes.

"INVESTMENTS" means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including guarantees or other obligations), advances or capital contributions (excluding commission, travel and similar advances to officers and employees made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP. If the Issuer or any of the Issuer's Subsidiaries sells or otherwise disposes of any Equity Interests of any of the Issuer's direct or indirect Subsidiaries such that, after giving effect to any such sale or disposition, such Person is no longer a Subsidiary of the Issuer, the Issuer will be deemed to have made an Investment on the date of any such sale or disposition equal to the fair market value of the Equity Interests of such Subsidiary not sold or disposed of in an amount determined as provided in the final paragraph of Section 4.07 hereof. The acquisition by the Issuer or any of the Issuer's Subsidiaries of a Person that holds an Investment in a third Person will be deemed to be an Investment by the Issuer or such Subsidiary in such third Person in an amount equal to the fair market value of the Investment held by the acquired Person in such third Person in an amount determined as provided in the final paragraph of Section 4.07 hereof.

"ISP" means International Specialty Products Inc. and any and all successors thereto.

"ISP CHEMCO" means ISP Chemco Inc. and any and all successors thereto.

"ISP INVESTCO" means ISP Investco LLC and any and all successors thereto.

"ISSUER" means International Specialty Holdings Inc. and any and all successors thereto.

"LEGAL HOLIDAY" means a Saturday, a Sunday or a day on which banking institutions in the City of New York or Wilmington, Delaware or at a place of payment are authorized by law, regulation or executive order to remain closed. If a payment date is a Legal Holiday at a place of payment, payment may be made at that place on the next succeeding day that is not a Legal Holiday, and no interest shall accrue on such payment for the intervening period.

"LETTER OF TRANSMITTAL" means the letter of transmittal to be prepared by the Issuer and sent to all Holders of the Notes for use by such Holders in connection with the Exchange Offer.

"LIEN" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security

interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction.

"LIQUIDATED DAMAGES" means all liquidated damages then owing pursuant to Section 5 of the Registration Rights Agreement.

"MANAGEMENT AGREEMENT" means the Amended and Restated Management Agreement, dated as of January 1, 1999, among GAF Corporation, G-1 Holdings, G Industries Corp., Merick Inc., GAF Fiberglass Corporation, ISP, GAF Building Materials Corporation, GAF Broadcasting Company, Inc., BMCA and ISP Management Company, Inc., as assignee of ISP Chemco Inc. (f/k/a ISP Opco Holdings Inc.).

"NET INCOME" means, with respect to any specified Person, the net income (loss) of such Person, determined in accordance with GAAP and before any reduction in respect of preferred stock dividends, excluding, however: (1) any gain or loss, together with any related provision for taxes on such gain or loss, realized in connection with: (a) any Asset Sale; or (b) the disposition of any securities by such Person or any of its Restricted Subsidiaries or the extinguishment of any Indebtedness of such Person or any of its Restricted Subsidiaries; (2) any extraordinary gain or loss, together with any related provision for taxes on such extraordinary gain or loss; (3) any non-recurring gain or loss, together with any related provision for taxes on such non-recurring gain or loss, relating to the Restructuring; and (4) any one-time effect of the adoption of the Proposed Statement of Financial Accounting Standards of the Financial Accounting Standards Board entitled BUSINESS COMBINATIONS AND INTANGIBLE ASSETS -- ACCOUNTING FOR GOODWILL.

"NET PROCEEDS" means the aggregate cash proceeds received by the Issuer or any of its Restricted Subsidiaries in respect of any Asset Sale (including, without limitation, any cash received upon the sale or other disposition of any non-cash consideration received in any Asset Sale), net of the direct costs relating to such Asset Sale, including, without limitation, legal, accounting and investment banking fees, and sales commissions, and any relocation expenses incurred as a result of the Asset Sale, taxes paid or payable as a result of the Asset Sale, in each case, after taking into account any available tax credits or deductions and any tax sharing arrangements, and amounts required to be applied to the repayment of Indebtedness secured by a Lien on the asset or assets that were the subject of such Asset Sale and any reserve for adjustment in respect of the sale price of such asset or assets established in accordance with GAAP.

"NET TANGIBLE ASSETS" means, with respect to any Person as of any date of determination, (a) the amount of property, plant and equipment of such Person and its Restricted Subsidiaries, plus (b) the amount of current assets of such Person and its Restricted Subsidiaries, minus (c) the amount of current liabilities of such Person and its Restricted Subsidiaries, in each case as set forth on such Person's consolidated balance sheet prepared in accordance with GAAP as of such date of determination.

"NON-RECOURSE DEBT" means Indebtedness: (1) as to which neither the Issuer nor any of the Issuer's Restricted Subsidiaries (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), (b) is directly or indirectly liable as a guarantor or otherwise, or (c) constitutes the lender; and (2) no default with respect to which (including any rights that the holders of the Indebtedness may have to take enforcement action against an Unrestricted Subsidiary) would permit upon notice, lapse of time or both any holder of any other Indebtedness (other than the notes) of the Issuer or any of the Issuer's Restricted Subsidiaries to declare a default on such other Indebtedness or cause the payment of the Indebtedness to be accelerated or payable prior to its stated maturity.

"NON-U.S. PERSON" means a Person who is not a U.S. Person.

"NOTES" means the Initial Notes and the Additional Notes, which shall be treated as a single class for all purposes under this Indenture.

"OBLIGATIONS" means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

"OFFERING" means the offering of the Notes by the Issuer.

"OFFICER" means, with respect to any Person, the Chairman of the Board, the Chief Executive Officer, the President, the Chief Operating Officer, the Chief Financial Officer, the Treasurer, any Assistant Treasurer, the Controller, the Secretary or any Vice-President of such Person.

"OFFICERS' CERTIFICATE" means a certificate signed on behalf of the Issuer by two Officers of the Issuer, one of whom must be the principal executive officer, the principal financial officer, the treasurer or the principal accounting officer of the Issuer, that meets the requirements of Section 13.05 hereof.

"OPINION OF COUNSEL" means an opinion from legal counsel who is reasonably acceptable to the Trustee, that meets the requirements of Section 13.05 hereof. The counsel may be an employee of or counsel to the Issuer, any Subsidiary of the Issuer or the Trustee.

"PARTICIPANT" means, with respect to the Depositary, Euroclear or Clearstream, a Person who has an account with the Depositary, Euroclear or Clearstream, respectively (and, with respect to DTC, shall include Euroclear and Clearstream).

"PERMITTED BUSINESS" means any business in which the Issuer and its Restricted Subsidiaries were engaged on the Closing Date, and any business reasonably related or complementary thereto, including without limitation, the Issuer's activities as a holding company.

"PERMITTED INVESTMENTS" means: (1) any Investment in the Issuer or in any of its Restricted Subsidiaries; (2) any Investment in Cash Equivalents; (3) any Investment existing on the Closing Date; (4) any Investment by the Issuer or any of its Subsidiaries in a Person, if as a result of such Investment: (a) such Person becomes a Restricted Subsidiary of the Issuer; or (b) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, the Issuer or a Restricted Subsidiary of the Issuer; (5) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with Section 4.10 hereof, other than securities, notes or other obligations that are deemed to be cash pursuant to clause (3)(b) of the first paragraph of Section 4.10 hereof unless actually converted into cash; (6) any acquisition of assets solely in exchange for the issuance of the Issuer's Equity Interests (other than Disqualified Stock); (7) any Investments received in compromise of obligations of such persons incurred in the ordinary course of trade creditors or customers that were incurred in the ordinary course of business, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; (8) Hedging Obligations; and (9) other Investments in any Person (other than an Affiliate of the Issuer that is not also a Subsidiary of the Issuer) having an aggregate fair market value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (9) since the Closing Date, not to exceed the greater of (a) \$35.0 million and (b) 5.0% of the Issuer's Net Tangible Assets as of the date on which any such Investment is made. For the avoidance of doubt, a loan to a Person that is not a Restricted Subsidiary of the Issuer shall not, except to the extent permitted by clause (9) above, be a Permitted Investment.

"PERMITTED LIENS" means: (1) Liens on the Issuer's assets created by this Indenture and the Pledge Agreement securing the Notes and any Additional Notes issued in accordance with the terms of this Indenture; (2) Liens in favor of the Issuer; (3) Liens on property of a Person existing at the time such Person is merged with or into or consolidated with the Issuer; provided that such Liens were in existence prior to the contemplation of such merger or consolidation and do not extend to any assets other than those of the Person merged into or consolidated with the Issuer; (4) Liens on property existing at the time of acquisition of the property by the Issuer; provided that such Liens were in existence prior to the contemplation of such acquisition; (5) Liens to secure the performance of statutory obligations, surety or appeal bonds, performance bonds or other obligations of a like nature incurred in the ordinary course of business; (6) Liens to secure Indebtedness permitted by clause (4) of the second paragraph of Section 4.09 hereof covering only the assets acquired with such Indebtedness; (7) Liens existing on the Closing Date; (8) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded; provided that any reserve or other appropriate provision as is required in conformity with GAAP has been made therefor; (9) Liens on the Issuer's assets to secure Indebtedness permitted by clause (5) of the second paragraph of Section 4.09 hereof to the extent (and only to the extent) that the Indebtedness being refinanced thereby was secured by Liens on such assets; (10) Liens on cash and Cash Equivalents posted as margin pursuant to the requirements of any bona fide hedge agreement relating to interest rates, foreign exchange or commodities listed on public exchanges, but only to the extent such Liens are required from customers generally (regardless of creditworthiness) in accordance with customary market practice; and (11) Liens with respect to obligations that do not exceed \$50.0 million at any one time outstanding.

"PERMITTED REFINANCING INDEBTEDNESS" means any of the Issuer's Indebtedness or Indebtedness of any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used to extend, refinance, renew, replace, defease or refund other Indebtedness of the Issuer or any of its Restricted Subsidiaries (other than intercompany Indebtedness); provided that:

(1) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness extended, refinanced, renewed, replaced, defeased or refunded (plus all accrued interest on the Indebtedness and the amount of all expenses and premiums incurred in connection therewith);

(2) such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and has a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of, the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded; (3) if the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded is subordinated in right of payment to the notes, such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and is subordinated in right of payment to, the notes on terms at least as favorable to the Holders of notes as those contained in the documentation governing the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded; and (4) such Indebtedness is incurred either by the Issuer or by the Subsidiary who is the obligor on the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded.

"PERSON" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government or other entity.

"PLEDGE AGREEMENT" means the Pledge Agreement dated as of the date of this Indenture and substantially in the form attached as Exhibit E hereto, as such agreement may be amended, modified or supplemented from time to time.

"PRIVATE PLACEMENT LEGEND" means the legend set forth in Section 2.06(g)(i) to be placed on all Notes issued under this Indenture except where otherwise permitted by the provisions of this Indenture.

"QIB" means a "qualified institutional buyer" as defined in Rule 144A.

"QUALIFIED SECURITIZATION PROGRAM" means any financing transaction (a) provided by one or more persons, none of which is an Affiliate of the Issuer, (b) in favor of an accounts receivable financing subsidiary, (c) secured by the grant by the accounts receivable financing subsidiary of a security interest in (or a sale of) only accounts receivable originated by the Issuer and its Restricted Subsidiaries in connection with the sale or lease of inventory or the rendering of services in the ordinary course of business and the proceeds thereof and (d) for which no recourse to the Issuer, its Restricted Subsidiaries or the accounts receivable financing subsidiary may be made other than (i) with respect to the Issuer or any of its Restricted Subsidiaries that sell accounts receivable to the accounts receivable financing subsidiary in connection with the transaction, and the accounts receivable financing subsidiary, (A) repurchases of accounts receivable that do not qualify for financing under the terms of the transaction, (B) the amount of any dilutions in respect of such accounts receivable and (C) customary indemnities for financing transactions of such type and (ii) solely with respect to the accounts receivable financing subsidiary, such accounts receivable and the proceeds thereof; provided, however, that, in any case, no recourse to the Issuer or its Restricted Subsidiaries or the accounts receivable financing subsidiary shall be permitted to be made for any credit-related default or loss with respect to any account receivable.

"REGISTRATION RIGHTS AGREEMENT" means the Registration Rights Agreement, dated as of December 13, 2001, by and among the Issuer and the other parties named on the signature pages thereof, as such agreement may be amended, modified or supplemented from time to time and, with respect to any Additional Notes, one or more registration rights agreements between the Issuer and the other parties thereto, as such agreement(s) may be amended, modified or supplemented from time to time, relating to rights given by the Issuer to the purchasers of Additional Notes to register such Additional Notes under the Securities Act.

"REGULATION S" means Regulation S promulgated under the Securities Act.

"REGULATION S GLOBAL NOTE" means a Regulation S Temporary Global Note or Regulation S Permanent Global Note, as appropriate.

"REGULATION S PERMANENT GLOBAL NOTE" means a permanent global Note in the form of Exhibit A1 hereto bearing the Global Note Legend and the Private Placement Legend and deposited with or on behalf of and registered in the name of the Depositary or its nominee, issued in a denomination equal to the outstanding principal amount of the Regulation S Temporary Global Note upon expiration of the Restricted Period.

"REGULATION S TEMPORARY GLOBAL NOTE" means a temporary global Note in the form of Exhibit A2 hereto deposited with or on behalf of and registered in the name of the Depositary or its nominee, issued in a denomination equal to the outstanding principal amount of the Notes initially sold in reliance on Rule 903 of Regulation S.

"RELATED PARTY" means, with respect to Samuel J. Heyman: (1) any immediate family member of Mr. Heyman; or (2) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or Persons beneficially holding an 80% or more controlling interest of which consist of Mr. Heyman and immediate family members of Mr. Heyman.

"RESPONSIBLE OFFICER," when used with respect to the Trustee, means any officer within the Corporate Trust Department of the Trustee (or any successor group of the Trustee) or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"RESTRICTED DEFINITIVE NOTE" means a Definitive Note bearing the Private Placement Legend.

"RESTRICTED GLOBAL NOTE" means a Global Note bearing the Private Placement Legend.

"RESTRICTED INVESTMENT" means an Investment other than a Permitted Investment.

"RESTRICTED PERIOD" means the 40-day distribution compliance period as defined in Regulation S.

"RESTRICTED SUBSIDIARY" of a Person means any Subsidiary of the referent Person that is not an Unrestricted Subsidiary.

"RESTRUCTURING" means the internal restructuring of ISP, completed in June 2001, that separated ISP's investment assets from its specialty chemicals business.

"RULE 144" means Rule 144 promulgated under the Securities Act.

"RULE 144A" means Rule 144A promulgated under the Securities Act.

"RULE 903" means Rule 903 promulgated under the Securities Act.

"RULE 904" means Rule 904 promulgated the Securities Act.

"SEC" means the Securities and Exchange Commission.

"SECURED PARTY" shall have the meaning given to such term in the Pledge Agreement.

"SECURITIES ACT" means the Securities Act of 1933, as amended.

"SHELF REGISTRATION STATEMENT" means the Shelf Registration Statement as defined in the Registration Rights Agreement.

"SIGNIFICANT SUBSIDIARY" means any Restricted Subsidiary that would be a "significant subsidiary" as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the date of this Indenture.

"STATED MATURITY" means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the original documentation governing such Indebtedness, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

"SUBSIDIARY" means, with respect to any specified Person: (1) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees of the corporation, association or other business entity is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and (2) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are that Person or one or more Subsidiaries of that Person (or any combination thereof).

"TAX SHARING AGREEMENTS" means the Tax Sharing Agreement made as of January 1, 2001 by and among the Issuer, ISP and ISP Chemco Inc. and the Tax Sharing Agreement made as of January 1, 2001 by and between the Issuer and ISP.

"THRESHOLD AMOUNT" means, with respect to any fiscal year of the Issuer commencing with the fiscal year in which the Notes are issued, the sum of (A) \$15.0 million plus (B) with respect to each fiscal year commencing with the year ending December 31, 2002, any Threshold Amount attributable to any prior fiscal year that has not been applied to reduce the amount of Asset Sale Proceeds that constitute Excess Proceeds pursuant to Section 4.10; provided, however, that at such time as the Threshold Amount has been applied to reduce the amount of Asset Sale Proceeds that constitute Excess Proceeds by \$75.0 million, the Threshold Amount shall thereafter be zero.

"TIA" means the Trust Indenture Act of 1939 (15 U.S.C. ss. ss. 77aaa-77bbb) as in effect on the date ON which this Indenture is qualified under the TIA.

"TRUSTEE" means the party named as such above until a successor replaces it in accordance with the applicable provisions of this Indenture and thereafter means the successor serving hereunder.

"UNRESTRICTED GLOBAL NOTE" means a permanent global Note substantially in the form of Exhibit A1 attached hereto that bears the Global Note Legend and that has the "Schedule of Exchanges of Interests in the Global Note" attached thereto, and that is deposited with or on behalf of and registered in the name of the Depositary, representing a series of Notes that do not bear the Private Placement Legend.

"UNRESTRICTED DEFINITIVE NOTE" means one or more Definitive Notes that do not bear and are not required to bear the Private Placement Legend.

"UNRESTRICTED SUBSIDIARY" means (A) ISP Investco LLC and its Subsidiaries; (B) all of the Issuer's Subsidiaries that have been designated as of the Closing Date as "unrestricted subsidiaries" under the 2011 Note Indenture and (C) any other Subsidiary of the Issuer that is designated by the Issuer's Board of Directors as an Unrestricted Subsidiary pursuant to a Board Resolution, but only to the extent that such Subsidiary: (1) has no Indebtedness other than Non-Recourse Debt; (2) is not party to any agreement, contract, arrangement or understanding with the Issuer or any Restricted Subsidiary of the Issuer unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to the Issuer or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of the Issuer; (3) is a Person with respect to which neither the Issuer nor any of its Restricted Subsidiaries has any direct or indirect obligation (a) to subscribe for additional Equity Interests or (b) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results; (4) has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of the Issuer or any of its Restricted Subsidiaries; and (5) has at least one director on its Board of Directors that is not a director of the Issuer's or any of its Restricted Subsidiaries.

Any designation of a Subsidiary of the Issuer as an Unrestricted Subsidiary will be evidenced to the Trustee by filing with the Trustee a certified copy of the Board Resolution giving effect to such designation and an Officers' Certificate certifying that such designation complied with the preceding conditions and was permitted by Section 4.07 hereof. If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of this Indenture and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary of the Issuer as of such date and, if such Indebtedness is not permitted to be incurred as of such date under Section 4.09 hereof, the Issuer will be in default of such covenant. The Issuer's Board of Directors may at any time designate any Unrestricted Subsidiary to be a

Restricted Subsidiary; provided that such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of the Issuer of any outstanding Indebtedness of such Unrestricted Subsidiary and such designation will only be permitted if (1) such Indebtedness is permitted under Section 4.09 hereof, calculated on a pro forma basis as if such designation had occurred at the beginning of the four-quarter reference period; and (2) no Default or Event of Default would be in existence following such designation.

"U.S. PERSON" means a U.S. Person as defined in Rule 902(o) under the Securities Act.

"VOTING STOCK" of any Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

"WEIGHTED AVERAGE LIFE TO MATURITY" means, when applied to any Indebtedness at any date, the number of years obtained by dividing: (1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by (2) the then outstanding principal amount of such Indebtedness.

"WHOLLY OWNED RESTRICTED SUBSIDIARY "of any specified Person means a Restricted Subsidiary of such Person all of the outstanding Capital Stock or other ownership interests of which (other than directors' qualifying shares) will at the time be owned by such Person or by one or more Wholly Owned Restricted Subsidiaries of such Person and one or more Wholly Owned Restricted Subsidiaries of such Person.

SECTION 1.02. OTHER DEFINITIONS.

Term	Defined in Section
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"AFFILIATE TRANSACTION".....	4.11
"ASSET SALE OFFER".....	3.09
"AUTHENTICATION ORDER".....	2.02
"CHANGE OF CONTROL OFFER".....	4.15
"CHANGE OF CONTROL PAYMENT".....	4.15
"CHANGE OF CONTROL PAYMENT DATE".....	4.15
"COVENANT DEFEASANCE".....	8.03
"DTC".....	2.03
"EVENT OF DEFAULT".....	6.01
"EXCESS PROCEEDS".....	4.10
"INCUR".....	4.09
"LEGAL DEFEASANCE".....	8.02
"OFFER AMOUNT".....	3.09
"OFFER PERIOD".....	3.09
"PAYING AGENT".....	2.03
"PAYMENT DEFAULT".....	6.01
"PERMITTED DEBT".....	4.09
"PURCHASE DATE".....	3.09
"REGISTRAR".....	2.03
"RESTRICTED PAYMENTS".....	4.07

SECTION 1.03 INCORPORATION BY REFERENCE OF TRUST INDENTURE ACT.

Whenever this Indenture refers to a provision of the TIA, the provision is incorporated by reference in and made a part of this Indenture.

The following TIA terms used in this Indenture have the following meanings:

"INDENTURE SECURITIES" means the Notes;

"INDENTURE SECURITY HOLDER" means a Holder of a Note;

"INDENTURE TO BE QUALIFIED" means this Indenture;

"INDENTURE TRUSTEE" or "INSTITUTIONAL TRUSTEE" means the Trustee; and

"OBLIGOR" on the Notes means the Issuer and any successor obligor upon the Notes.

All other terms used in this Indenture that are defined by the TIA, defined by TIA reference to another statute or defined by SEC rule under the TIA have the meanings so assigned to them.

SECTION 1.04. RULES OF CONSTRUCTION.

Unless the context otherwise requires:

- (a) a term has the meaning assigned to it;
- (b) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;
- (c) "or" is not exclusive;
- (d) words in the singular include the plural, and in the plural include the singular;
- (e) provisions apply to successive events and transactions; and
- (f) references to sections of or rules under the Securities Act shall be deemed to include substitute, replacement of successor sections or rules adopted by the SEC from time to time.

ARTICLE 2. THE NOTES

SECTION 2.01. FORM AND DATING.

(a) GENERAL. The Notes and the Trustee's certificate of authentication shall be substantially in the form of Exhibits A-1 or A-2 hereto. The Notes may have notations, legends or endorsements required by law, stock exchange rule or usage. Each Note shall be dated the date of its authentication. The Notes shall be in denominations of \$1,000 and integral multiples thereof.

The terms and provisions contained in the Notes shall constitute, and are hereby expressly made, a part of this Indenture and the Issuer and the Trustee, by their execution and delivery of this Indenture, expressly agree to such terms and provisions and to be bound thereby. However, to the extent any

provision of any Note conflicts with the express provisions of this Indenture, the provisions of this Indenture shall govern and be controlling.

(b) GLOBAL NOTES. Notes issued in global form shall be substantially in the form of Exhibits A1 or A2 attached hereto (including the Global Note Legend thereon and the "Schedule of Exchanges of Interests in the Global Note" attached thereto). Notes issued in definitive form shall be substantially in the form of Exhibit A1 attached hereto (but without the Global Note Legend thereon and without the "Schedule of Exchanges of Interests in the Global Note" attached thereto). Each Global Note shall represent such of the outstanding Notes as shall be specified therein and each shall provide that it shall represent the aggregate principal amount of outstanding Notes from time to time endorsed thereon and that the aggregate principal amount of outstanding Notes represented thereby may from time to time be reduced or increased, as appropriate, to reflect exchanges and redemptions. Any endorsement of a Global Note to reflect the amount of any increase or decrease in the aggregate principal amount of outstanding Notes represented thereby shall be made by the Trustee or the Custodian, at the direction of the Trustee, in accordance with instructions given by the Holder thereof as required by Section 2.06 hereof.

(c) TEMPORARY GLOBAL NOTES. Notes offered and sold in reliance on Regulation S shall be issued initially in the form of the Regulation S Temporary Global Note, which shall be deposited on behalf of the purchasers of the Notes represented thereby with the Trustee as custodian for the Depositary, and registered in the name of the Depositary or the nominee of the Depositary for the accounts of designated agents holding on behalf of Euroclear or Clearstream, duly executed by the Issuer and authenticated by the Trustee as hereinafter provided. The Restricted Period shall be terminated upon the receipt by the Trustee of (i) a written certificate from the Depositary, together with copies of certificates from Euroclear and Clearstream certifying that they have received certification of non-United States beneficial ownership of 100% of the aggregate principal amount of the Regulation S Temporary Global Note (except to the extent of any beneficial owners thereof who acquired an interest therein during the Restricted Period pursuant to another exemption from registration under the Securities Act and who will take delivery of a beneficial ownership interest in a 144A Global Note or an IAI Global Note bearing a Private Placement Legend, all as contemplated by Section 2.06(b)(hereof), and (ii) an Officers' Certificate from the Issuer. Following the termination of the Restricted Period, beneficial interests in the Regulation S Temporary Global Note shall be exchanged for beneficial interests in Regulation S Permanent Global Notes pursuant to the Applicable Procedures. Simultaneously with the authentication of Regulation S Permanent Global Notes, the Trustee shall cancel the Regulation S Temporary Global Note. The aggregate principal amount of the Regulation S Temporary Global Note and the Regulation S Permanent Global Notes may from time to time be increased or decreased by adjustments made on the records of the Trustee and the Depositary or its nominee, as the case may be, in connection with transfers of interest as hereinafter provided.

(d) EUROCLEAR AND CLEARSTREAM PROCEDURES APPLICABLE. The provisions of the "Operating Procedures of the Euroclear System" and "Terms and Conditions Governing Use of Euroclear" and the "General Terms and Conditions of Clearstream" and "Customer Handbook" of Clearstream shall be applicable to transfers of beneficial interests in the Regulation S Temporary Global Note and the Regulation S Permanent Global Notes that are held by Participants through Euroclear or Clearstream.

SECTION 2.02. EXECUTION AND AUTHENTICATION.

One Officer of the Issuer shall sign the Notes for the Issuer by manual or facsimile signature.

If an Officer whose signature is on a Note no longer holds that office at the time a Note is authenticated, the Note shall nevertheless be valid.

A Note shall not be valid until authenticated by the manual signature of the Trustee. The signature shall be conclusive evidence that the Note has been authenticated under this Indenture.

The Trustee shall, upon a written order of the Issuer signed by one Officer of the Issuer (an "AUTHENTICATION ORDER"), authenticate Notes for original issue.

The Trustee may appoint an authenticating agent acceptable to the Issuer to authenticate Notes. An authenticating agent may authenticate Notes whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent has the same rights as an Agent to deal with Holders or an Affiliate of the Issuer.

SECTION 2.03. REGISTRAR AND PAYING AGENT.

The Issuer shall maintain an office or agency where Notes may be presented for registration of transfer or for exchange ("REGISTRAR") and an office or agency where Notes may be presented for payment ("PAYING AGENT"). The Registrar shall keep a register of the Notes and of their transfer and exchange. The Issuer may appoint one or more co-registrars and one or more additional paying agents. The term "Registrar" includes any co-registrar and the term "Paying Agent" includes any additional paying agent. The Issuer may change any Paying Agent or Registrar without notice to any Holder. The Issuer shall notify the Trustee in writing of the name and address of any Agent not a party to this Indenture. If the Issuer fails to appoint or maintain another entity as Registrar or Paying Agent, the Trustee shall act as such. The Issuer or any of its Subsidiaries may act as Paying Agent or Registrar.

The Issuer initially appoints The Depository Trust Company ("DTC") to act as Depositary with respect to the Global Notes.

The Issuer initially appoints the Trustee to act as the Registrar and Paying Agent and to act as Custodian with respect to the Global Notes.

SECTION 2.04. PAYING AGENT TO HOLD MONEY IN TRUST.

The Issuer shall require each Paying Agent other than the Trustee to agree in writing that the Paying Agent will hold in trust for the benefit of Holders or the Trustee all money held by the Paying Agent for the payment of principal, premium or Liquidated Damages, if any, or interest on the Notes, and will notify the Trustee of any default by the Issuer in making any such payment. While any such default continues, the Trustee may require a Paying Agent to pay all money held by it to the Trustee. The Issuer at any time may require a Paying Agent to pay all money held by it to the Trustee. Upon payment over to the Trustee, the Paying Agent (if other than the Issuer or a Subsidiary of the Issuer) shall have no further liability for the money. If the Issuer or a Subsidiary of the Issuer acts as Paying Agent, it shall segregate and hold in a separate trust fund for the benefit of the Holders all money held by it as Paying Agent. Upon any bankruptcy or reorganization proceedings relating to such Issuer, the Trustee shall serve as Paying Agent for the Notes.

SECTION 2.05. HOLDER LISTS.

The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of all Holders and shall otherwise comply with TIA ss. 312(a). If the Trustee is not the Registrar, the Issuer shall furnish to the Trustee at least seven Business Days, or such shorter time as the Trustee will allow, before each interest payment date and at such other times as the Trustee may request in writing, a list in such form and as of such date as the Trustee may reasonably

require of the names and addresses of the Holders of Notes and the Issuer shall otherwise comply with TIA ss. 312(a).

SECTION 2.06. TRANSFER AND EXCHANGE.

(a) **TRANSFER AND EXCHANGE OF GLOBAL NOTES.** A Global Note may not be transferred as a whole except by the Depositary to a nominee of the Depositary, by a nominee of the Depositary to the Depositary or to another nominee of the Depositary, or by the Depositary or any such nominee to a successor Depositary or a nominee of such successor Depositary. All Global Notes will be exchanged by the Issuer for Definitive Notes if (i) the Issuer delivers to the Trustee notice from the Depositary that it is unwilling or unable to continue to act as Depositary or that it is no longer a clearing agency registered under the Exchange Act and, in either case, a successor Depositary is not appointed by the Issuer within 120 days after the date of such notice from the Depositary or (ii) the Issuer in their sole discretion determines that the Global Notes (in whole but not in part) should be exchanged for Definitive Notes and deliver a written notice to such effect to the Trustee; PROVIDED that in no event shall the Regulation S Temporary Global Note be exchanged by the Issuer for Definitive Notes prior to (x) the expiration of the Restricted Period and (y) the receipt by the Registrar of any certificates required pursuant to Rule 903(b)(3)(ii)(B) under the Securities Act. Upon the occurrence of either of the preceding events in (i) or (ii) above, Definitive Notes shall be issued in such names as the Depositary shall instruct the Trustee. Global Notes also may be exchanged or replaced, in whole or in part, as provided in Sections 2.07 and 2.10 hereof. Every Note authenticated and delivered in exchange for, or in lieu of, a Global Note or any portion thereof, pursuant to this Section 2.06 or Section 2.07 or 2.10 hereof, shall be authenticated and delivered in the form of, and shall be, a Global Note. A Global Note may not be exchanged for another Note other than as provided in this Section 2.06(a), however, beneficial interests in a Global Note may be transferred and exchanged as provided in Section 2.06(b), (c) or (f) hereof.

(b) **TRANSFER AND EXCHANGE OF BENEFICIAL INTERESTS IN THE GLOBAL NOTES.** The transfer and exchange of beneficial interests in the Global Notes shall be effected through the Depositary, in accordance with the provisions of this Indenture and the Applicable Procedures. Beneficial interests in the Restricted Global Notes shall be subject to restrictions on transfer comparable to those set forth herein to the extent required by the Securities Act. Transfers of beneficial interests in the Global Notes also shall require compliance with either subparagraph (i) or (ii) below, as applicable, as well as one or more of the other following subparagraphs, as applicable:

(i) **TRANSFER OF BENEFICIAL INTERESTS IN THE SAME GLOBAL NOTE.** Beneficial interests in any Restricted Global Note may be transferred to Persons who take delivery thereof in the form of a beneficial interest in the same Restricted Global Note in accordance with the transfer restrictions set forth in the Private Placement Legend; PROVIDED, HOWEVER, that prior to the expiration of the Restricted Period, transfers of beneficial interests in the Regulation S Temporary Global Note may not be made to a U.S. Person or for the account or benefit of a U.S. Person (other than an Initial Purchaser). Beneficial interests in any Unrestricted Global Note may be transferred to Persons who take delivery thereof in the form of a beneficial interest in an Unrestricted Global Note. No written orders or instructions shall be required to be delivered to the Registrar to effect the transfers described in this Section 2.06(b)(i).

(ii) **ALL OTHER TRANSFERS AND EXCHANGES OF BENEFICIAL INTERESTS IN GLOBAL NOTES.** In connection with all transfers and exchanges of beneficial interests that are not subject to Section 2.06(b)(i) above, the transferor of such beneficial interest must deliver to the Registrar either (A) (1) a written order from a Participant or an Indirect Participant given to the Depositary in accordance with the Applicable Procedures directing the Depositary to credit or cause to be credited a beneficial interest in another Global Note in an amount equal to the beneficial interest

to be transferred or exchanged and (2) instructions given in accordance with the Applicable Procedures containing information regarding the Participant account to be credited with such increase or (B) (1) a written order from a Participant or an Indirect Participant given to the Depository in accordance with the Applicable Procedures directing the Depository to cause to be issued a Definitive Note in an amount equal to the beneficial interest to be transferred or exchanged and (2) instructions given by the Depository to the Registrar containing information regarding the Person in whose name such Definitive Note shall be registered to effect the transfer or exchange referred to in (1) above; PROVIDED that in no event shall Definitive Notes be issued upon the transfer or exchange of beneficial interests in the Regulation S Temporary Global Note prior to (x) the expiration of the Restricted Period and (y) the receipt by the Registrar of any certificates required pursuant to Rule 903 under the Securities Act. Upon consummation of an Exchange Offer by the Issuer in accordance with Section 2.06(f) hereof, the requirements of this Section 2.06(b)(ii) shall be deemed to have been satisfied upon receipt by the Registrar of the instructions contained in the Letter of Transmittal delivered by the Holder of such beneficial interests in the Restricted Global Notes. Upon satisfaction of all of the requirements for transfer or exchange of beneficial interests in Global Notes contained in this Indenture and the Notes or otherwise applicable under the Securities Act, the Trustee shall adjust the principal amount of the relevant Global Note(s) pursuant to Section 2.06(h) hereof.

(iii) TRANSFER OF BENEFICIAL INTERESTS IN A RESTRICTED GLOBAL NOTE TO ANOTHER RESTRICTED GLOBAL NOTE. A beneficial interest in any Restricted Global Note may be transferred to a Person who takes delivery thereof in the form of a beneficial interest in another Restricted Global Note if the transfer complies with the requirements of Section 2.06(b)(ii) above and the Registrar receives the following:

(A) if the transferee will take delivery in the form of a beneficial interest in the 144A Global Note, then the transferor must deliver a certificate in the form of Exhibit B hereto, including the certifications in item (1) thereof;

(B) if the transferee will take delivery in the form of a beneficial interest in the Regulation S Temporary Global Note or the Regulation S Global Note, then the transferor must deliver a certificate in the form of Exhibit B hereto, including the certifications in item (2) thereof; and

(C) if the transferee will take delivery in the form of a beneficial interest in the IAI Global Note, then the transferor must deliver a certificate in the form of Exhibit B hereto, including the certifications and certificates and Opinion of Counsel required by item (3) thereof, if applicable.

(iv) TRANSFER AND EXCHANGE OF BENEFICIAL INTERESTS IN A RESTRICTED GLOBAL NOTE FOR BENEFICIAL INTERESTS IN THE UNRESTRICTED GLOBAL NOTE. A beneficial interest in any Restricted Global Note may be exchanged by any holder thereof for a beneficial interest in an Unrestricted Global Note or transferred to a Person who takes delivery thereof in the form of a beneficial interest in an Unrestricted Global Note if the exchange or transfer complies with the requirements of Section 2.06(b)(ii) above and:

(A) such exchange or transfer is effected pursuant to the Exchange Offer in accordance with the Registration Rights Agreement and the holder of the beneficial interest to be transferred, in the case of an exchange, or the transferee, in the case of a transfer, certifies in the applicable Letter of Transmittal that it is not (1) a broker-dealer,

(2) a Person participating in the distribution of the Exchange Notes or (3) a Person who is an affiliate (as defined in Rule 144) of the Issuer;

(B) such transfer is effected pursuant to the Shelf Registration Statement in accordance with the Registration Rights Agreement;

(C) such transfer is effected by a Broker-Dealer pursuant to the Exchange Offer Registration Statement in accordance with the Registration Rights Agreement; or

(D) the Registrar receives the following:

(1) if the holder of such beneficial interest in a Restricted Global Note proposes to exchange such beneficial interest for a beneficial interest in an Unrestricted Global Note, a certificate from such holder in the form of Exhibit C hereto, including the certifications in item (1)(a) thereof; or

(2) if the holder of such beneficial interest in a Restricted Global Note proposes to transfer such beneficial interest to a Person who shall take delivery thereof in the form of a beneficial interest in an Unrestricted Global Note, a certificate from such holder in the form of Exhibit B hereto, including the certifications in item (4) thereof;

and, in each such case set forth in this subparagraph (D), if the Registrar so requests or if the Applicable Procedures so require, an Opinion of Counsel in form reasonably acceptable to the Registrar to the effect that such exchange or transfer is in compliance with the Securities Act and that the restrictions on transfer contained herein and in the Private Placement Legend are no longer required in order to maintain compliance with the Securities Act.

If any such transfer is effected pursuant to subparagraph (B) or (D) above at a time when an Unrestricted Global Note has not yet been issued, the Issuer shall issue and, upon receipt of an Authentication Order in accordance with Section 2.02 hereof, the Trustee shall authenticate one or more Unrestricted Global Notes in an aggregate principal amount equal to the aggregate principal amount of beneficial interests transferred pursuant to subparagraph (B) or (D) above.

Beneficial interests in an Unrestricted Global Note cannot be exchanged for, or transferred to Persons who take delivery thereof in the form of, a beneficial interest in a Restricted Global Note.

(c) Transfer or Exchange of Beneficial Interests for Definitive Notes.

(i) BENEFICIAL INTERESTS IN RESTRICTED GLOBAL NOTES TO RESTRICTED DEFINITIVE NOTES. If any holder of a beneficial interest in a Restricted Global Note proposes to exchange such beneficial interest for a Restricted Definitive Note or to transfer such beneficial interest to a Person who takes delivery thereof in the form of a Restricted Definitive Note, then, upon receipt by the Registrar of the following documentation:

(A) if the holder of such beneficial interest in a Restricted Global Note proposes to exchange such beneficial interest for a Restricted Definitive Note, a certificate from such holder in the form of Exhibit C hereto, including the certifications in item (2)(a) thereof;

- (B) if such beneficial interest is being transferred to a QIB in accordance with Rule 144A under the Securities Act, a certificate to the effect set forth in Exhibit B hereto, including the certifications in item (1) thereof;
- (C) if such beneficial interest is being transferred to a Non-U.S. Person in an offshore transaction in accordance with Rule 903 or Rule 904 under the Securities Act, a certificate to the effect set forth in Exhibit B hereto, including the certifications in item (2) thereof;
- (D) if such beneficial interest is being transferred pursuant to an exemption from the registration requirements of the Securities Act in accordance with Rule 144 under the Securities Act, a certificate to the effect set forth in Exhibit B hereto, including the certifications in item (3)(a) thereof;
- (E) if such beneficial interest is being transferred to an Institutional Accredited Investor in reliance on an exemption from the registration requirements of the Securities Act other than those listed in subparagraphs (B) through (D) above, a certificate to the effect set forth in Exhibit B hereto, including the certifications, certificates and Opinion of Counsel required by item (3) thereof, if applicable;
- (F) if such beneficial interest is being transferred to the Issuer or any of its Subsidiaries, a certificate to the effect set forth in Exhibit B hereto, including the certifications in item (3)(b) thereof; or
- (G) if such beneficial interest is being transferred pursuant to an effective registration statement under the Securities Act, a certificate to the effect set forth in Exhibit B hereto, including the certifications in item (3)(c) thereof,
- the Trustee shall cause the aggregate principal amount of the applicable Global Note to be reduced accordingly pursuant to Section 2.06(h) hereof, and the Issuer shall execute and the Trustee shall authenticate and deliver to the Person designated in the instructions a Definitive Note in the appropriate principal amount. Any Definitive Note issued in exchange for a beneficial interest in a Restricted Global Note pursuant to this Section 2.06(c) shall be registered in such name or names and in such authorized denomination or denominations as the holder of such beneficial interest shall instruct the Registrar through instructions from the Depositary and the Participant or Indirect Participant. The Trustee shall mail or deliver such Definitive Notes to the Persons in whose names such Notes are so registered. Any Definitive Note issued in exchange for a beneficial interest in a Restricted Global Note pursuant to this Section 2.06(c)(i) shall bear the Private Placement Legend and shall be subject to all restrictions on transfer contained therein.
- (ii) BENEFICIAL INTERESTS IN REGULATION S TEMPORARY GLOBAL NOTE TO DEFINITIVE NOTES. Notwithstanding Sections 2.06(c)(i)(A) and (C) hereof, a beneficial interest in the Regulation S Temporary Global Note may not be exchanged for a Definitive Note or transferred to a Person who takes delivery thereof in the form of a Definitive Note prior to
- (x) the expiration of the Restricted Period and (y) the receipt by the Registrar of any certificates required pursuant to Rule 903(b)(3)(ii)(B) under the Securities Act, except in the case of a transfer pursuant to an exemption from the registration requirements of the Securities Act other than Rule 903 or Rule 904.

(iii) **BENEFICIAL INTERESTS IN RESTRICTED GLOBAL NOTES TO UNRESTRICTED DEFINITIVE NOTES.** A holder of a beneficial interest in a Restricted Global Note may exchange such beneficial interest for an Unrestricted Definitive Note or may transfer such beneficial interest to a Person who takes delivery thereof in the form of an Unrestricted Definitive Note only if:

(A) such exchange or transfer is effected pursuant to the Exchange Offer in accordance with the Registration Rights Agreement and the holder of such beneficial interest, in the case of an exchange, or the transferee, in the case of a transfer, certifies in the applicable Letter of Transmittal that it is not

(1) a broker-dealer, (2) a Person participating in the distribution of the Exchange Notes or (3) a Person who is an affiliate (as defined in Rule 144) of the Issuer;

(B) such transfer is effected pursuant to the Shelf Registration Statement in accordance with the Registration Rights Agreement;

(C) such transfer is effected by a Broker-Dealer pursuant to the Exchange Offer Registration Statement in accordance with the Registration Rights Agreement; or

(D) the Registrar receives the following:

(1) if the holder of such beneficial interest in a Restricted Global Note proposes to exchange such beneficial interest for a Definitive Note that does not bear the Private Placement Legend, a certificate from such holder in the form of Exhibit C hereto, including the certifications in item (1)(b) thereof; or

(2) if the holder of such beneficial interest in a Restricted Global Note proposes to transfer such beneficial interest to a Person who shall take delivery thereof in the form of a Definitive Note that does not bear the Private Placement Legend, a certificate from such holder in the form of Exhibit B hereto, including the certifications in item (4) thereof;

and, in each such case set forth in this subparagraph (D), if the Registrar so requests or if the Applicable Procedures so require, an Opinion of Counsel in form reasonably acceptable to the Registrar to the effect that such exchange or transfer is in compliance with the Securities Act and that the restrictions on transfer contained herein and in the Private Placement Legend are no longer required in order to maintain compliance with the Securities Act.

(iv) **BENEFICIAL INTERESTS IN UNRESTRICTED GLOBAL NOTES TO UNRESTRICTED DEFINITIVE NOTES.** If any holder of a beneficial interest in an Unrestricted Global Note proposes to exchange such beneficial interest for a Definitive Note or to transfer such beneficial interest to a Person who takes delivery thereof in the form of a Definitive Note, then, upon satisfaction of the conditions set forth in Section 2.06(b)(ii) hereof, the Trustee shall cause the aggregate principal amount of the applicable Global Note to be reduced accordingly pursuant to Section 2.06(h) hereof, and the Issuer shall execute and the Trustee shall authenticate and mail or deliver to the Person designated in the instructions a Definitive Note in the appropriate principal amount. Any Definitive Note issued in exchange for a beneficial interest pursuant to this Section 2.06(c)(iv) shall be registered in such name or names and in such authorized denomination or denominations as the holder of such beneficial interest shall instruct the Registrar through instructions from the Depositary and the Participant or Indirect Participant. The Trustee shall mail or deliver such Definitive Notes to the Persons in whose names such Notes are so registered. Any Definitive

Note issued in exchange for a beneficial interest pursuant to this
Section 2.06(c)(iv) shall not bear the Private Placement Legend.

(d) TRANSFER AND EXCHANGE OF DEFINITIVE NOTES FOR BENEFICIAL INTERESTS.

(i) RESTRICTED DEFINITIVE NOTES TO BENEFICIAL INTERESTS IN RESTRICTED GLOBAL NOTES. If any Holder of a Restricted Definitive Note proposes to exchange such Note for a beneficial interest in a Restricted Global Note or to transfer such Restricted Definitive Notes to a Person who takes delivery thereof in the form of a beneficial interest in a Restricted Global Note, then, upon receipt by the Registrar of the following documentation:

(A) if the Holder of such Restricted Definitive Note proposes to exchange such Note for a beneficial interest in a Restricted Global Note, a certificate from such Holder in the form of Exhibit C hereto, including the certifications in item (2)(b) thereof;

(B) if such Restricted Definitive Note is being transferred to a QIB in accordance with Rule 144A under the Securities Act, a certificate to the effect set forth in Exhibit B hereto, including the certifications in item (1) thereof;

(C) if such Restricted Definitive Note is being transferred to a Non-U.S. Person in an offshore transaction in accordance with Rule 903 or Rule 904 under the Securities Act, a certificate to the effect set forth in Exhibit B hereto, including the certifications in item (2) thereof;

(D) if such Restricted Definitive Note is being transferred pursuant to an exemption from the registration requirements of the Securities Act in accordance with Rule 144 under the Securities Act, a certificate to the effect set forth in Exhibit B hereto, including the certifications in item (3)(a) thereof;

(E) if such Restricted Definitive Note is being transferred to an Institutional Accredited Investor in reliance on an exemption from the registration requirements of the Securities Act other than those listed in subparagraphs (B) through (D) above, a certificate to the effect set forth in Exhibit B hereto, including the certifications, certificates and Opinion of Counsel required by item (3) thereof, if applicable;

(F) if such Restricted Definitive Note is being transferred to the Issuer or any of its Subsidiaries, a certificate to the effect set forth in Exhibit B hereto, including the certifications in item (3)(b) thereof; or

(G) if such Restricted Definitive Note is being transferred pursuant to an effective registration statement under the Securities Act, a certificate to the effect set forth in Exhibit B hereto, including the certifications in item (3)(c) thereof,

the Trustee shall cancel the Restricted Definitive Note, increase or cause to be increased the aggregate principal amount of, in the case of clause (A) above, the appropriate Restricted Global Note, in the case of clause (B) above, the 144A Global Note, in the case of clause (C) above, the Regulation S Global Note, and in all other cases, the IAI Global Note.

(ii) RESTRICTED DEFINITIVE NOTES TO BENEFICIAL INTERESTS IN UNRESTRICTED GLOBAL NOTES. A Holder of a Restricted Definitive Note may exchange such Note for a beneficial interest in an

Unrestricted Global Note or transfer such Restricted Definitive Note to a Person who takes delivery thereof in the form of a beneficial interest in an Unrestricted Global Note only if:

(A) such exchange or transfer is effected pursuant to the Exchange Offer in accordance with the Registration Rights Agreement and the Holder, in the case of an exchange, or the transferee, in the case of a transfer, certifies in the applicable Letter of Transmittal that it is not (1) a broker-dealer, (2) a Person participating in the distribution of the Exchange Notes or (3) a Person who is an affiliate (as defined in Rule 144) of the Issuer;

(B) such transfer is effected pursuant to the Shelf Registration Statement in accordance with the Registration Rights Agreement;

(C) such transfer is effected by a Broker-Dealer pursuant to the Exchange Offer Registration Statement in accordance with the Registration Rights Agreement; or

(D) the Registrar receives the following:

(1) if the Holder of such Definitive Notes proposes to exchange such Notes for a beneficial interest in the Unrestricted Global Note, a certificate from such Holder in the form of Exhibit C hereto, including the certifications in item (1)(c) thereof; or

(2) if the Holder of such Definitive Notes proposes to transfer such Notes to a Person who shall take delivery thereof in the form of a beneficial interest in the Unrestricted Global Note, a certificate from such Holder in the form of Exhibit B hereto, including the certifications in item (4) thereof;

and, in each such case set forth in this subparagraph (D), if the Registrar so requests or if the Applicable Procedures so require, an Opinion of Counsel in form reasonably acceptable to the Registrar to the effect that such exchange or transfer is in compliance with the Securities Act and that the restrictions on transfer contained herein and in the Private Placement Legend are no longer required in order to maintain compliance with the Securities Act.

Upon satisfaction of the conditions of any of the subparagraphs in this Section 2.06(d)(ii), the Trustee shall cancel the Definitive Notes and increase or cause to be increased the aggregate principal amount of the Unrestricted Global Note.

(iii) UNRESTRICTED DEFINITIVE NOTES TO BENEFICIAL INTERESTS IN UNRESTRICTED GLOBAL NOTES. A Holder of an Unrestricted Definitive Note may exchange such Note for a beneficial interest in an Unrestricted Global Note or transfer such Definitive Notes to a Person who takes delivery thereof in the form of a beneficial interest in an Unrestricted Global Note at any time. Upon receipt of a request for such an exchange or transfer, the Trustee shall cancel the applicable Unrestricted Definitive Note and increase or cause to be increased the aggregate principal amount of one of the Unrestricted Global Notes.

If any such exchange or transfer from a Definitive Note to a beneficial interest is effected pursuant to subparagraphs (ii)(B), (ii)(D) or (iii) above at a time when an Unrestricted Global Note has not yet been issued, the Issuer shall issue and, upon receipt of an Authentication Order in accordance with Section 2.02 hereof, the Trustee shall authenticate one or more Unrestricted

Global Notes in an aggregate principal amount equal to the principal amount of Definitive Notes so transferred.

(e) **TRANSFER AND EXCHANGE OF DEFINITIVE NOTES FOR DEFINITIVE NOTES.** Upon request by a Holder of Definitive Notes and such Holder's compliance with the provisions of this Section 2.06(e), the Registrar shall register the transfer or exchange of Definitive Notes. Prior to such registration of transfer or exchange, the requesting Holder shall present or surrender to the Registrar the Definitive Notes duly endorsed or accompanied by a written instruction of transfer in form satisfactory to the Registrar duly executed by such Holder or by its attorney, duly authorized in writing. In addition, the requesting Holder shall provide any additional certifications, documents and information, as applicable, required pursuant to the following provisions of this Section 2.06(e).

(i) **RESTRICTED DEFINITIVE NOTES TO RESTRICTED DEFINITIVE NOTES.** Any Restricted Definitive Note may be transferred to and registered in the name of Persons who take delivery thereof in the form of a Restricted Definitive Note if the Registrar receives the following:

(A) if the transfer will be made pursuant to Rule 144A under the Securities Act, then the transferor must deliver a certificate in the form of Exhibit B hereto, including the certifications in item (1) thereof;

(B) if the transfer will be made pursuant to Rule 903 or Rule 904, then the transferor must deliver a certificate in the form of Exhibit B hereto, including the certifications in item (2) thereof; and

(C) if the transfer will be made pursuant to any other exemption from the registration requirements of the Securities Act, then the transferor must deliver a certificate in the form of Exhibit B hereto, including the certifications, certificates and Opinion of Counsel required by item (3) thereof, if applicable.

(ii) **RESTRICTED DEFINITIVE NOTES TO UNRESTRICTED DEFINITIVE NOTES.** Any Restricted Definitive Note may be exchanged by the Holder thereof for an Unrestricted Definitive Note or transferred to a Person or Persons who take delivery thereof in the form of an Unrestricted Definitive Note if:

(A) such exchange or transfer is effected pursuant to the Exchange Offer in accordance with the Registration Rights Agreement and the Holder, in the case of an exchange, or the transferee, in the case of a transfer, certifies in the applicable Letter of Transmittal that it is not (1) a broker-dealer, (2) a Person participating in the distribution of the Exchange Notes or (3) a Person who is an affiliate (as defined in Rule 144) of the Issuer;

(B) any such transfer is effected pursuant to the Shelf Registration Statement in accordance with the Registration Rights Agreement;

(C) any such transfer is effected by a Broker-Dealer pursuant to the Exchange Offer Registration Statement in accordance with the Registration Rights Agreement; or

(D) the Registrar receives the following:

(1) if the Holder of such Restricted Definitive Notes proposes to exchange such Notes for an Unrestricted Definitive Note, a certificate from such Holder in the form of Exhibit C hereto, including the certifications in item (1)(d) thereof; or

(2) if the Holder of such Restricted Definitive Notes proposes to transfer such Notes to a Person who shall take delivery thereof in the form of an Unrestricted Definitive Note, a certificate from such Holder in the form of Exhibit B hereto, including the certifications in item (4) thereof;

and, in each such case set forth in this subparagraph (D), if the Registrar so requests, an Opinion of Counsel in form reasonably acceptable to the Issuer to the effect that such exchange or transfer is in compliance with the Securities Act and that the restrictions on transfer contained herein and in the Private Placement Legend are no longer required in order to maintain compliance with the Securities Act.

(iii) UNRESTRICTED DEFINITIVE NOTES TO UNRESTRICTED DEFINITIVE NOTES. A Holder of Unrestricted Definitive Notes may transfer such Notes to a Person who takes delivery thereof in the form of an Unrestricted Definitive Note. Upon receipt of a request to register such a transfer, the Registrar shall register the Unrestricted Definitive Notes pursuant to the instructions from the Holder thereof.

(f) EXCHANGE OFFER. Upon the occurrence of the Exchange Offer in accordance with the Registration Rights Agreement, the Issuer shall issue and, upon receipt of an Authentication Order in accordance with Section 2.02, the Trustee shall authenticate (i) one or more Unrestricted Global Notes in an aggregate principal amount equal to the principal amount of the beneficial interests in the Restricted Global Notes tendered for acceptance by Persons that certify in the applicable Letters of Transmittal that (x) they are not Broker-Dealers, (y) they are not participating in a distribution of the Exchange Notes and (z) they are not affiliates (as defined in Rule 144) of the Issuer, and accepted for exchange in the Exchange Offer and (ii) Unrestricted Definitive Notes in an aggregate principal amount equal to the principal amount of the Restricted Definitive Notes accepted for exchange in the Exchange Offer. Concurrently with the issuance of such Notes, the Trustee shall cause the aggregate principal amount of the applicable Restricted Global Notes to be reduced accordingly, and the Issuer shall execute and the Trustee shall authenticate and mail or deliver to the Persons designated by the Holders of Definitive Notes so accepted Unrestricted Definitive Notes in the appropriate principal amount.

(g) LEGENDS. The following legends shall appear on the face of all Global Notes and Definitive Notes issued under this Indenture unless specifically stated otherwise in the applicable provisions of this Indenture.

(i) PRIVATE PLACEMENT LEGEND.

(A) Except as permitted by subparagraph (B) below, each Global Note and each Definitive Note (and all Notes issued in exchange therefor or substitution thereof) shall bear the legend in substantially the following form:

"THE SECURITY (OR ITS PREDECESSOR) EVIDENCED HEREBY WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER SECTION 5 OF THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE SECURITY EVIDENCED HEREBY MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE

EXEMPTION THEREFROM. EACH PURCHASER OF THE SECURITY EVIDENCED HEREBY IS HEREBY NOTIFIED THAT THE SELLER MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER. THE HOLDER OF THE SECURITY EVIDENCED HEREBY AGREES FOR THE BENEFIT OF THE ISSUER THAT (A) SUCH SECURITY MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) (a) IN THE UNITED STATES TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (b) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 UNDER THE SECURITIES ACT, (c) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144 UNDER THE SECURITIES ACT, (d) TO AN INSTITUTIONAL "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501 (a)(1), (2), (3) OR (7) OF THE SECURITIES ACT (AN "INSTITUTIONAL ACCREDITED INVESTOR")) THAT, PRIOR TO SUCH TRANSFER, FURNISHES THE REGISTRAR A SIGNED LETTER CONTAINING CERTAIN REPRESENTATIONS AND AGREEMENTS (THE FORM OF WHICH CAN BE OBTAINED FROM THE REGISTRAR) AND, IF SUCH TRANSFER IS IN RESPECT OF AN AGGREGATE PRINCIPAL AMOUNT OF NOTES LESS THAN \$250,000, AN OPINION OF COUNSEL ACCEPTABLE TO THE ISSUER THAT SUCH TRANSFER IS IN COMPLIANCE WITH THE SECURITIES ACT OR (e) IN ACCORDANCE WITH ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (AND BASED UPON AN OPINION OF COUNSEL IF THE ISSUER SO REQUESTS), (2) TO THE ISSUER OR (3) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT AND, IN EACH CASE, IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE SECURITY EVIDENCED HEREBY OF THE RESALE RESTRICTIONS SET FORTH IN (A) ABOVE."

(B) Notwithstanding the foregoing, any Global Note or Definitive Note issued pursuant to subparagraphs (b)(iv), (c)(iii), (c)(iv), (d)(ii), (d)(iii), (e)(ii), (e)(iii) or (f) to this Section 2.06 (and all Notes issued in exchange therefor or substitution thereof) shall not bear the Private Placement Legend.

(ii) GLOBAL NOTE LEGEND. Each Global Note shall bear a legend in substantially the following form:

"THIS GLOBAL NOTE IS HELD BY THE DEPOSITARY (AS DEFINED IN THE INDENTURE GOVERNING THIS NOTE) OR ITS NOMINEE IN CUSTODY FOR THE BENEFIT OF THE BENEFICIAL OWNERS HEREOF, AND IS NOT TRANSFERABLE TO ANY PERSON UNDER ANY CIRCUMSTANCES EXCEPT THAT (I) THE TRUSTEE MAY MAKE SUCH NOTATIONS HEREON AS MAY BE REQUIRED PURSUANT TO SECTION 2.06 OR IN ACCORDANCE WITH SECTION 9.05 OF THE INDENTURE, (II) THIS GLOBAL NOTE MAY BE EXCHANGED IN WHOLE BUT NOT IN PART PURSUANT TO SECTION 2.06(a) OF THE INDENTURE, (III) THIS GLOBAL NOTE MAY BE DELIVERED TO THE TRUSTEE FOR CANCELLATION PURSUANT TO SECTION 2.11 OF THE INDENTURE AND (IV) THIS GLOBAL NOTE MAY BE TRANSFERRED TO A SUCCESSOR DEPOSITARY WITH THE PRIOR WRITTEN CONSENT OF THE ISSUER.

UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR NOTES IN DEFINITIVE FORM, THIS NOTE MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY OR BY

THE DEPOSITARY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITARY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITARY. UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (55 WATER STREET, NEW YORK, NEW YORK) ("DTC"), TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS MAY BE REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR SUCH OTHER ENTITY AS MAY BE REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN."

(iii) REGULATION S TEMPORARY GLOBAL NOTE LEGEND. The Regulation S Temporary Global Note shall bear a legend in substantially the following form:

"THE RIGHTS ATTACHING TO THIS REGULATION S TEMPORARY GLOBAL NOTE, AND THE CONDITIONS AND PROCEDURES GOVERNING ITS EXCHANGE FOR CERTIFICATED NOTES, ARE AS SPECIFIED IN THE INDENTURE (AS DEFINED HEREIN). NEITHER THE HOLDER NOR THE BENEFICIAL OWNERS OF THIS REGULATION S TEMPORARY GLOBAL NOTE SHALL BE ENTITLED TO RECEIVE PAYMENT OF INTEREST HEREON."

(h) CANCELLATION AND/OR ADJUSTMENT OF GLOBAL NOTES. At such time as all beneficial interests in a particular Global Note have been exchanged for Definitive Notes or a particular Global Note has been redeemed, repurchased or canceled in whole and not in part, each such Global Note shall be returned to or retained and canceled by the Trustee in accordance with Section 2.11 hereof. At any time prior to such cancellation, if any beneficial interest in a Global Note is exchanged for or transferred to a Person who will take delivery thereof in the form of a beneficial interest in another Global Note or for Definitive Notes, the principal amount of Notes represented by such Global Note shall be reduced accordingly and an endorsement shall be made on such Global Note by the Trustee or by the Depositary at the direction of the Trustee to reflect such reduction; and if the beneficial interest is being exchanged for or transferred to a Person who will take delivery thereof in the form of a beneficial interest in another Global Note, such other Global Note shall be increased accordingly and an endorsement shall be made on such Global Note by the Trustee or by the Depositary at the direction of the Trustee to reflect such increase.

(i) GENERAL PROVISIONS RELATING TO TRANSFERS AND EXCHANGES.

(i) To permit registrations of transfers and exchanges, the Issuer shall execute and, upon receipt of an Authentication Order in accordance with Section 2.02, the Trustee shall authenticate Global Notes and Definitive Notes upon the Issuer's order or at the Registrar's request.

(ii) No service charge shall be made to a Holder of a beneficial interest in a Global Note or to a Holder of a Definitive Note for any registration of transfer or exchange, but the Issuer may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection therewith (other than any such transfer taxes or similar governmental charge payable upon exchange or transfer pursuant to Sections 2.10, 3.06, 3.09, 4.10, 4.15 and 9.05 hereof).

(iii) All Global Notes and Definitive Notes issued upon any registration of transfer or exchange of Global Notes or Definitive Notes shall be the valid obligations of the Issuer,

evidencing the same debt, and entitled to the same benefits under this Indenture, as the Global Notes or Definitive Notes surrendered upon such registration of transfer or exchange.

(iv) Neither the Registrar nor the Issuer shall be required (A) to issue, to register the transfer of or to exchange any Notes during a period beginning at the opening of business 15 days before the day of any selection of Notes for redemption under Section 3.02 hereof and ending at the close of business on the day of selection, (B) to register the transfer of or to exchange any Note so selected for redemption in whole or in part, except the unredeemed portion of any Note being redeemed in part or (C) to register the transfer of or to exchange a Note between a record date and the next succeeding Interest Payment Date.

(v) Prior to due presentment for the registration of a transfer of any Note, the Trustee, any Agent and the Issuer may deem and treat the Person in whose name any Note is registered as the absolute owner of such Note for the purpose of receiving payment of principal of and interest on such Notes and for all other purposes, and none of the Trustee, any Agent or the Issuer shall be affected by notice to the contrary.

(vi) The Trustee shall authenticate Global Notes and Definitive Notes in accordance with the provisions of Section 2.02 hereof.

(vii) All certifications, certificates and Opinions of Counsel required to be submitted to the Registrar pursuant to this Section 2.06 to effect a registration of transfer or exchange may be submitted by facsimile.

(viii) The Trustee is hereby authorized to enter into a letter of representation with the Depository in the form provided by the Issuer and to act in accordance with such letter.

SECTION 2.07. REPLACEMENT NOTES.

If any mutilated Note is surrendered to the Trustee or the Issuer, and the Trustee receives evidence to its satisfaction of the destruction, loss or theft of any Note, the Issuer shall issue and the Trustee, upon receipt of an Authentication Order, shall authenticate a replacement Note if the Trustee's requirements are met. If required by the Trustee or the Issuer, an indemnity bond must be supplied by the Holder that is sufficient in the judgment of the Trustee and the Issuer to protect the Issuer, the Trustee, any Agent and any authenticating agent from any loss that any of them may suffer if a Note is replaced. The Issuer may charge for its expenses in replacing a Note.

Every replacement Note is an additional obligation of the Issuer and shall be entitled to all of the benefits of this Indenture equally and proportionately with all other Notes duly issued hereunder.

SECTION 2.08. OUTSTANDING NOTES.

The Notes outstanding at any time are all the Notes authenticated by the Trustee except for those canceled by it, those delivered to it for cancellation, those reductions in the interest in a Global Note effected by the Trustee in accordance with the provisions hereof, and those described in this

Section as not outstanding. Except as set forth in Section 2.09 hereof, a Note does not cease to be outstanding because the Issuer or an Affiliate of the Issuer holds the Note; however, Notes held by the Issuer or a Subsidiary of the Issuer shall not be deemed to be outstanding for purposes of Section 3.07(b) hereof.

If a Note is replaced pursuant to Section 2.07 hereof, it ceases to be outstanding unless the Trustee receives proof satisfactory to it that the replaced Note is held by a bona fide purchaser.

If the principal amount of any Note is considered paid under Section 4.01 hereof, it ceases to be outstanding and interest on it ceases to accrue.

If the Paying Agent (other than the Issuer, a Subsidiary of the Issuer or an Affiliate of any thereof) holds, on a redemption date or maturity date, money sufficient to pay Notes payable on that date, then on and after that date such Notes shall be deemed to be no longer outstanding and shall cease to accrue interest.

SECTION 2.09. TREASURY NOTES.

In determining whether the Holders of the required principal amount of Notes have concurred in any direction, waiver or consent, Notes owned by the Issuer, or by any Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Issuer, shall be considered as though not outstanding, except that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, waiver or consent, only Notes that the Trustee knows are so owned shall be so disregarded.

SECTION 2.10. TEMPORARY NOTES.

Until certificates representing Notes are ready for delivery, the Issuer may prepare and the Trustee, upon receipt of an Authentication Order, shall authenticate temporary Notes. Temporary Notes shall be substantially in the form of certificated Notes but may have variations that the Issuer considers appropriate for temporary Notes and as shall be reasonably acceptable to the Trustee. Without unreasonable delay, the Issuer shall prepare and the Trustee shall authenticate definitive Notes in exchange for temporary Notes.

Holders of temporary Notes shall be entitled to all of the benefits of this Indenture.

SECTION 2.11. CANCELLATION.

The Issuer at any time may deliver Notes to the Trustee for cancellation. The Registrar and Paying Agent shall forward to the Trustee any Notes surrendered to them for registration of transfer, exchange or payment. The Trustee and no one else shall cancel all Notes surrendered for registration of transfer, exchange, payment, replacement or cancellation and shall destroy canceled Notes (subject to the record retention requirement of the Exchange Act). Certification of the destruction of all canceled Notes shall be delivered to the Issuer. The Issuer may not issue new Notes to replace Notes that it has paid or that have been delivered to the Trustee for cancellation.

SECTION 2.12. DEFAULTED INTEREST.

If the Issuer defaults in a payment of interest on the Notes, it shall pay the defaulted interest in any lawful manner plus, to the extent lawful, interest payable on the defaulted interest, to the Persons who are Holders on a subsequent special record date, in each case at the rate provided in the Notes and in Section 4.01 hereof. The Issuer shall notify the Trustee in writing of the amount of defaulted interest proposed to be paid on each Note and the date of the proposed payment. The Issuer shall fix or cause to be fixed each such special record date and payment date; PROVIDED that no such special record date shall be less than 10 days prior to the related payment date for such defaulted interest. At least 15 days before the special record date, the Issuer (or, upon the written request of the Issuer, the Trustee in the name and at the expense of the Issuer) shall mail or cause to be mailed to Holders a notice that states the special record date, the related payment date and the amount of such interest to be paid.

SECTION 2.13. CUSIP NUMBERS.

The Issuer in issuing the Notes may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use "CUSIP" numbers in notices of redemption as a convenience to Holders; PROVIDED that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Notes or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Notes, and any such redemption shall not be affected by an defect in or omission of such numbers. The Issuer will promptly notify the Trustee of any change in the "CUSIP" numbers.

SECTION 2.14. RECORD DATE.

The record date for purposes of determining the identity of Holders of Notes entitled to vote or consent to any action by vote or consent authorized or permitted under this Indenture shall be determined as provided for in TIA ss. 316(c).

ARTICLE 3. REDEMPTION AND PREPAYMENT

SECTION 3.01. NOTICES TO TRUSTEE.

If the Issuer elects to redeem Notes pursuant to the optional redemption provisions of Section 3.07 hereof, it shall furnish to the Trustee, at least 30 days but not more than 60 days before a redemption date, an Officers' Certificate setting forth (i) the clause of this Indenture pursuant to which the redemption shall occur, (ii) the redemption date, (iii) the principal amount of Notes to be redeemed and (iv) the redemption price.

SECTION 3.02. SELECTION OF NOTES TO BE REDEEMED.

If less than all of the Notes are to be redeemed or purchased in an offer to purchase at any time, the Trustee shall select the Notes to be redeemed or purchased among the Holders of the Notes in compliance with the requirements of the principal national securities exchange, if any, on which the Notes are listed or, if the Notes are not so listed, on a PRO RATA basis, by lot or in accordance with any other method the Trustee considers fair and appropriate. In the event of partial redemption by lot, the particular Notes to be redeemed shall be selected, unless otherwise provided herein, not less than 30 nor more than 60 days prior to the redemption date by the Trustee from the outstanding Notes not previously called for redemption.

The Trustee shall promptly notify the Issuer in writing of the Notes selected for redemption and, in the case of any Note selected for partial redemption, the principal amount thereof to be redeemed. Notes and portions of Notes selected shall be in amounts of \$1,000 or whole multiples of \$1,000; except that if all of the Notes of a Holder are to be redeemed, the entire outstanding amount of Notes held by such Holder, even if not a multiple of \$1,000, shall be redeemed. Except as provided in the preceding sentence, provisions of this Indenture that apply to Notes called for redemption also apply to portions of Notes called for redemption.

SECTION 3.03. NOTICE OF REDEMPTION.

Subject to the provisions of Section 3.09 hereof, at least 30 days but not more than 60 days before a redemption date, the Issuer shall mail or cause to be mailed, by first class mail, a notice of redemption to each Holder whose Notes are to be redeemed at its registered address.

The notice shall identify the Notes to be redeemed and shall state:

- (a) the redemption date;
- (b) the redemption price;
- (c) if any Note is being redeemed in part, the portion of the principal amount of such Note to be redeemed and that, after the redemption date upon surrender of such Note, a new Note or Notes in principal amount equal to the unredeemed portion shall be issued upon cancellation of the original Note;
- (d) the name and address of the Paying Agent;
- (e) that Notes called for redemption must be surrendered to the Paying Agent to collect the redemption price;
- (f) that, unless the Issuer defaults in making such redemption payment, interest and Liquidated Damages, if any, on Notes called for redemption ceases to accrue on and after the redemption date;
- (g) the paragraph of the Notes and/or Section of this Indenture pursuant to which the Notes called for redemption are being redeemed; and
- (h) that no representation is made as to the correctness or accuracy of the CUSIP number, if any, listed in such notice or printed on the Notes.

At the Issuer's request, the Trustee shall give the notice of redemption in the Issuer's name and at its expense; PROVIDED, HOWEVER, that the Issuer shall have delivered to the Trustee, at least 45 days prior to the redemption date, an Officers' Certificate requesting that the Trustee give such notice and setting forth the information to be stated in such notice as provided in the preceding paragraph.

SECTION 3.04. EFFECT OF NOTICE OF REDEMPTION.

Once notice of redemption is mailed in accordance with Section 3.03 hereof, Notes called for redemption become irrevocably due and payable on the redemption date at the redemption price. A notice of redemption may not be conditional.

SECTION 3.05. DEPOSIT OF REDEMPTION PRICE.

One Business Day prior to the redemption date, the Issuer shall deposit with the Trustee or with the Paying Agent money sufficient to pay the redemption price of and accrued interest and Liquidated Damages, if any, on all Notes to be redeemed on that date. The Trustee or the Paying Agent shall promptly return to the Issuer any money deposited with the Trustee or the Paying Agent by the Issuer in excess of the amounts necessary to pay the redemption price of, and accrued interest and Liquidated Damages, if any, on, all Notes to be redeemed.

If the Issuer complies with the provisions of the preceding paragraph, on and after the redemption date, interest and Liquidated Damages, if any, shall cease to accrue on the Notes or the portions of Notes called for redemption. If a Note is redeemed on or after an interest record date but on or prior to the related interest payment date, then any accrued and unpaid interest and Liquidated Damages, if any, shall be paid to the Person in whose name such Note was registered at the close of business on such record date. If any Note called for redemption shall not be so paid upon surrender for redemption because of the

failure of the Issuer to comply with the preceding paragraph, interest shall be paid on the unpaid principal, from the redemption date until such principal is paid, and to the extent lawful on any interest not paid on such unpaid principal, in each case at the rate provided in the Notes and in Section 4.01 hereof.

SECTION 3.06. NOTES REDEEMED IN PART.

Upon surrender of a Note that is redeemed in part, the Issuer shall issue and, upon receipt of an Authentication Order, the Trustee shall authenticate for the Holder at the expense of the Issuer a new Note equal in principal amount to the unredeemed portion of the Note surrendered.

SECTION 3.07. OPTIONAL REDEMPTION.

(a) Except as set forth in clause (b) of this Section 3.07, the Issuer shall not have the option to redeem the Notes pursuant to this Section 3.07 prior to December 15, 2005. Thereafter, the Issuer may redeem all or a part of the notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest and Liquidated Damages, if any, on the notes redeemed, to the applicable redemption date, if redeemed during the twelve-month period beginning on December 15 of the years indicated below:

YEAR	PERCENTAGE
----	-----
2005.....	105.313%
2006.....	103.542%
2007.....	101.771%
2008 and thereafter.....	100.000%

(b) Notwithstanding the provisions of clause (a) of this Section 3.07, at any time prior to December 15, 2004, the Issuer may on any one or more occasions redeem up to 35% of the aggregate principal amount of notes originally issued under this Indenture at a redemption price of 110.625% of the principal amount, plus accrued and unpaid interest and Liquidated Damages, if any, to the redemption date, with the net cash proceeds of one or more Equity Offerings; PROVIDED that: (1) at least 65% of the aggregate principal amount of notes originally issued under this Indenture remains outstanding immediately after the occurrence of such redemption (excluding notes held by the Issuer and Affiliates of the Issuer); and (2) notice of the redemption is given within 30 days of the date of the closing of such Equity Offering.

(c) Any redemption pursuant to this Section 3.07 shall be made pursuant to the provisions of Section 3.01 through 3.06 hereof.

SECTION 3.08. MANDATORY REDEMPTION.

The Issuer shall not be required to make mandatory redemption or sinking fund payments with respect to the Notes.

SECTION 3.09. OFFER TO PURCHASE BY APPLICATION OF EXCESS PROCEEDS.

In the event that, pursuant to Section 4.10 hereof, the Issuer shall be required to commence an offer to all Holders to purchase Notes (an "ASSET SALE OFFER"), it shall follow the procedures specified below.

The Asset Sale Offer shall remain open for a period of 20 Business Days following its commencement and no longer, except to the extent that a longer period is required by applicable law (the

"OFFER PERIOD"). No later than five Business Days after the termination of the Offer Period (the "PURCHASE DATE"), the Issuer shall purchase the principal amount of Notes required to be purchased pursuant to Section 4.10 hereof (the "OFFER AMOUNT") or, if less than the Offer Amount has been tendered, all Notes tendered in response to the Asset Sale Offer. Payment for any Notes so purchased shall be made in the same manner as interest payments are made.

If the Purchase Date is on or after an interest record date and on or before the related interest payment date, any accrued and unpaid interest shall be paid to the Person in whose name a Note is registered at the close of business on such record date, and no additional interest shall be payable to Holders who tender Notes pursuant to the Asset Sale Offer.

Upon the commencement of an Asset Sale Offer, the Issuer shall send, by first class mail, a notice to the Trustee and each of the Holders, with a copy to the Trustee. The notice shall contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Asset Sale Offer. The Asset Sale Offer shall be made to all Holders. The notice, which shall govern the terms of the Asset Sale Offer, shall state:

(a) that the Asset Sale Offer is being made pursuant to this Section 3.09 and Section 4.10 hereof and the length of time the Asset Sale Offer shall remain open;

(b) the Offer Amount, the purchase price and the Purchase Date;

(c) that any Note not tendered or accepted for payment shall continue to accrue interest;

(d) that, unless the Issuer defaults in making such payment, any Note accepted for payment pursuant to the Asset Sale Offer shall cease to accrue interest and Liquidated Damages, if any, after the Purchase Date;

(e) that Holders electing to have a Note purchased pursuant to an Asset Sale Offer may elect to have Notes purchased in integral multiples of \$1,000 only;

(f) that Holders electing to have a Note purchased pursuant to any Asset Sale Offer shall be required to surrender the Note, with the form entitled "Option of Holder to Elect Purchase" on the reverse of the Note completed, or transfer by book-entry transfer, to the Issuer, a depository, if appointed by the Issuer, or a Paying Agent at the address specified in the notice at least three days before the Purchase Date;

(g) that Holders shall be entitled to withdraw their election if the Issuer, the depository or the Paying Agent, as the case may be, receives, not later than the expiration of the Offer Period, a telegram, facsimile transmission or letter setting forth the name of the Holder, the principal amount of the Note the Holder delivered for purchase and a statement that such Holder is withdrawing his election to have such Note purchased;

(h) that, if the aggregate principal amount of Notes surrendered by Holders exceeds the Offer Amount, the Issuer shall select the Notes to be purchased on a PRO RATA basis (with such adjustments as may be deemed appropriate by the Issuer so that only Notes in denominations of \$1,000, or integral multiples thereof, shall be purchased); and

(i) that Holders whose Notes were purchased only in part shall be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered (or transferred by book-entry transfer).

On or before the Purchase Date, the Issuer shall, to the extent lawful, accept for payment, on a PRO RATA basis to the extent necessary, the Offer Amount of Notes or portions thereof tendered pursuant to the Asset Sale Offer, or if less than the Offer Amount has been tendered, all Notes tendered, and shall deliver to the Trustee an Officers' Certificate stating that such Notes or portions thereof were accepted for payment by the Issuer in accordance with the terms of this Section 3.09. The Issuer, the Depositary or the Paying Agent, as the case may be, shall promptly (but in any case not later than five days after the Purchase Date) mail or deliver to each tendering Holder an amount equal to the purchase price of the Notes tendered by such Holder and accepted by the Issuer for purchase, and the Issuer shall promptly issue a new Note, and the Trustee, upon written request from the Issuer shall authenticate and mail or deliver such new Note to such Holder, in a principal amount equal to any unpurchased portion of the Note surrendered. Any Note not so accepted shall be promptly mailed or delivered by the Issuer to the Holder thereof. The Issuer shall publicly announce the results of the Asset Sale Offer on the Purchase Date.

Other than as specifically provided in this Section 3.09, any purchase pursuant to this Section 3.09 shall be made pursuant to the provisions of Sections 3.01 through 3.06 hereof.

ARTICLE 4. COVENANTS

SECTION 4.01. PAYMENT OF NOTES.

The Issuer shall pay or cause to be paid the principal of, premium, if any, interest and Liquidated Damages, if any, on the Notes on the dates and in the manner provided in the Notes. Principal, premium, if any, interest and Liquidated Damages, if any, shall be considered paid on the date due if the Paying Agent, if other than the Issuer or any of its Subsidiaries holds as of 10:00 a.m. Eastern Time on the due date money deposited by the Issuer in immediately available funds and designated for and sufficient to pay all principal, premium, if any, and interest then due. The Issuer shall pay all Liquidated Damages, if any, in the same manner on the dates and in the amounts set forth in the Registration Rights Agreement.

The Issuer shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue principal at the rate equal to 1% per annum in excess of the then applicable interest rate on the Notes to the extent lawful; it shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue installments of interest and Liquidated Damages (without regard to any applicable grace period) at the same rate to the extent lawful.

SECTION 4.02. MAINTENANCE OF OFFICE OR AGENCY.

The Issuer shall maintain an office or agency (which may be an office of the Trustee or an affiliate of the Trustee, Registrar or co-registrar) where Notes may be surrendered for registration of transfer or for exchange and where notices and demands to or upon the Issuer in respect of the Notes and this Indenture may be served. The Issuer shall give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Issuer shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee.

The Issuer may also from time to time designate one or more other offices or agencies where the Notes may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; PROVIDED, HOWEVER, that no such designation or rescission shall in any manner relieve the Issuer of its obligation to maintain an office or agency for such purposes. The Issuer shall give

prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

The Issuer hereby designates the Corporate Trust Office of the Trustee as one such office or agency of the Issuer in accordance with Section 2.03.

SECTION 4.03. REPORTS.

(a) Whether or not required by the SEC, so long as any Notes are outstanding, the Issuer shall furnish to the Holders of Notes, within the time periods specified in the SEC's rules and regulations: (1) all quarterly and annual financial information that would be required to be contained in a filing with the SEC on Forms 10-Q and 10-K if the Issuer were required to file such forms, including a "Management's Discussion and Analysis of Financial Condition and Results of Operations" and, with respect to the annual information only, a report on the annual financial statements by the Issuer's certified independent accountants; and (2) all current reports that would be required to be filed with the SEC on Form 8-K if the Issuer were required to file such reports. The quarterly and annual financial information required by the preceding sentence shall include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, and in Management's Discussion and Analysis of Financial Condition and Results of Operations, of the financial condition and results of operations of the Issuer and the Issuer's Restricted Subsidiaries separate from the financial condition and results of operations of the Issuer's Unrestricted Subsidiaries. In addition, following the consummation of the Exchange Offer contemplated by the Registration Rights Agreement, whether or not required by the SEC, the Issuer shall file a copy of all of the information and reports referred to in clauses (1) and (2) above with the SEC for public availability within the time periods specified in the SEC's rules and regulations (unless the SEC will not accept such a filing) and make such information available to securities analysts and prospective investors upon request. In addition, the Issuer has agreed that, for so long as any Notes remain outstanding, the Issuer shall furnish to the Holders and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

(b) For so long as the Issuer is a subsidiary of ISP, if permitted by applicable law, the foregoing requirements shall be deemed to be satisfied if ISP delivers the reports and other information required thereby.

SECTION 4.04. COMPLIANCE CERTIFICATE.

(a) The Issuer shall deliver to the Trustee, within 90 days after the end of each fiscal year, an Officers' Certificate stating that a review of the activities of the Issuer and its Subsidiaries during the preceding fiscal year has been made under the supervision of the signing Officers with a view to determining whether the Issuer has kept, observed, performed and fulfilled its obligations under this Indenture, and further stating, as to each such Officer signing such certificate, that to the best of his or her knowledge the Issuer has kept, observed, performed and fulfilled each and every covenant contained in this Indenture and is not in default in the performance or observance of any of the terms, provisions and conditions of this Indenture (or, if a Default or Event of Default shall have occurred, describing all such Defaults or Events of Default of which he or she may have knowledge and what action the Issuer is taking or proposes to take with respect thereto) and that to the best of his or her knowledge no event has occurred and remains in existence by reason of which payments on account of the principal of or interest, if any, on the Notes is prohibited or if such event has occurred, a description of the event and what action the Issuer is taking or proposes to take with respect thereto.

(b) So long as not contrary to the then current recommendations of the American Institute of Certified Public Accountants, the year-end financial statements delivered pursuant to Section 4.03(a) above shall be accompanied by a written statement of the Issuer's independent public accountants (who shall be a firm of established national reputation) that in making the examination necessary for certification of such financial statements, nothing has come to their attention that would lead them to believe that the Issuer has violated any provisions of Article 4 or Article 5 hereof or, if any such violation has occurred, specifying the nature and period of existence thereof, it being understood that such accountants shall not be liable directly or indirectly to any Person for any failure to obtain knowledge of any such violation.

(c) The Issuer shall, so long as any of the Notes are outstanding, deliver to the Trustee, forthwith upon any Officer becoming aware of any Default or Event of Default, an Officers' Certificate specifying such Default or Event of Default and what action the Issuer is taking or proposes to take with respect thereto.

SECTION 4.05. TAXES.

The Issuer shall pay, and shall cause each of its Subsidiaries to pay, prior to delinquency, all material taxes, assessments, and governmental levies except such as are contested in good faith and by appropriate proceedings or where the failure to effect such payment is not adverse in any material respect to the Holders of the Notes.

SECTION 4.06. STAY, EXTENSION AND USURY LAWS.

The Issuer covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law wherever enacted, now or at any time hereafter in force, that may affect the covenants or the performance of this Indenture; and the Issuer (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it shall not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Trustee, but shall suffer and permit the execution of every such power as though no such law has been enacted.

SECTION 4.07. RESTRICTED PAYMENTS.

The Issuer shall not, and shall not permit any of its Restricted Subsidiaries to, directly or indirectly: (1) declare or pay any dividend or make any other payment or distribution on account of any of the Issuer's Equity Interests or any of its Restricted Subsidiaries' Equity Interests (including, without limitation, any payment in connection with any merger or consolidation involving the Issuer or any of its Restricted Subsidiaries) or to the direct or indirect holders of any of the Issuer's Equity Interests or any of the Issuer's Restricted Subsidiaries' Equity Interests in their capacity as such (other than dividends or distributions payable in the Issuer's Equity Interests (other than Disqualified Stock) or dividends or distributions payable to the Issuer or one of its Restricted Subsidiaries); (2) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving the Issuer) any of the Issuer's Equity Interests or any Equity Interests of the Issuer's direct or indirect parent; (3) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Indebtedness that is subordinated to the Notes, except a payment of interest or principal at the Stated Maturity thereof; or (4) make any Restricted Investment (all such payments and other actions set forth in these clauses (1) through (4) above being collectively referred to as "Restricted Payments"), unless, at the time of and after giving effect to such Restricted Payment: (a) no Default or Event of Default shall have occurred and be continuing or would occur as a consequence thereof; and (b) the Issuer would, at the time of such Restricted Payment and after giving pro forma effect thereto as if

such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of Section 4.09; and (c) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by the Issuer and its Restricted Subsidiaries after the Closing Date (excluding Restricted Payments permitted by clauses (2), (3), (4), (5), (6) and (7) of the next succeeding paragraph), is less than the sum, without duplication, of:

- (i) 50% of the Issuer's Consolidated Net Income for the period (taken as one accounting period) beginning January 1, 2002 to the end of the Issuer's most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit), plus
- (ii) 100% of the aggregate proceeds received by the Issuer since the Closing Date as a contribution to common equity capital or from the issue or sale of the Issuer's Equity Interests (other than Disqualified Stock) or from the issue or sale of the Issuer's convertible or exchangeable Disqualified Stock or the Issuer's convertible or exchangeable debt securities that have, in either case, been converted into or exchanged for such Equity Interests (other than Equity Interests (or Disqualified Stock or debt securities) sold to one of the Issuer's Subsidiaries), plus
- (iii) to the extent that any Restricted Investment that was made after the Closing Date is sold for cash or otherwise liquidated or repaid for cash, the cash return of capital with respect to such Restricted Investment (less the cost of disposition, if any); plus
- (iv) \$50.0 million.

So long as no Default or Event of Default has occurred and is continuing or would be caused thereby, the preceding provisions will not prohibit: (1) the payment of any dividend within 60 days after the date of declaration of the dividend, if at the date of declaration the dividend payment would have complied with the provisions of this Indenture; (2) the redemption, repurchase, retirement, defeasance or other acquisition of any of the Issuer's subordinated Indebtedness or of any of its Equity Interests, or any dividend or other distribution in respect thereof, in exchange for Equity Interests (other than Disqualified Stock) of, or in an amount equal to the net cash proceeds of a sale (other than to one of the Issuer's Restricted Subsidiaries) of the Issuer's Equity Interests (other than Disqualified Stock) or a capital contribution to the equity of the Issuer in the 30-day period prior thereto; provided that the amount of any such net cash proceeds that are utilized for any such redemption, repurchase, retirement, defeasance or other acquisition will be excluded from clause (4)(c)(ii) of the preceding paragraph; (3) the defeasance, redemption, repurchase or other acquisition or retirement of subordinated Indebtedness with the net cash proceeds from an incurrence of Permitted Refinancing Indebtedness; (4) the payment of any dividend by any of the Issuer's Restricted Subsidiaries to the holders of its Equity Interests on a pro rata basis; (5) the repurchase, redemption or other acquisition or retirement for value of any of the Issuer's Equity Interests or any Equity Interests of any of the Issuer's Restricted Subsidiaries or any direct or indirect parent company of the Issuer held by any member of the Issuer's management pursuant to any management equity subscription agreement, stock option agreement or similar agreement; provided that the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests shall not exceed \$3.0 million in any twelve-month period; (6) any Restricted Payment for the purpose of defeasing, redeeming, repurchasing or otherwise acquiring or retiring the 2003 Notes and any Restricted Payment as contemplated to be made to ISP with the proceeds of the issuance of the Initial Notes; and (7) payments required by the Tax Sharing Agreements as in effect on the Closing Date, and amendments thereto that do not adversely affect in any material respect the Issuer, the Issuer's Restricted Subsidiaries or the Holders.

The amount of all Restricted Payments (other than cash) will be the fair market value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Issuer or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The fair market value of any assets or securities that are required to be valued by this Section 4.07 will be determined by the Board of Directors whose resolution with respect thereto will be delivered to the Trustee. The Board of Directors' determination must be based upon an opinion or appraisal issued by an accounting, appraisal or investment banking firm of national standing if the fair market value exceeds \$10.0 million.

SECTION 4.08. DIVIDEND AND OTHER PAYMENT RESTRICTIONS AFFECTING RESTRICTED SUBSIDIARIES.

The Issuer shall not, and shall not permit any of its Restricted Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

- (1) pay dividends or make any other distributions on its Capital Stock to the Issuer or any of the Issuer's Restricted Subsidiaries, or with respect to any other interest or participation in, or measured by, its profits, or pay any indebtedness owed to the Issuer or any of its Restricted Subsidiaries;
- (2) make loans or advances to the Issuer or any of its Restricted Subsidiaries; or
- (3) transfer any of its properties or assets to the Issuer or any of its Restricted Subsidiaries.

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

- (i) agreements governing Existing Indebtedness and the Credit Agreement, in each case as in effect on the Closing Date; and any amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings of those agreements; provided that the amendments, modifications, restatements, renewals, increases, supplements, refundings, replacement or refinancings are no more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in those agreements on the Closing Date;
- (ii) this Indenture, the Notes and the Exchange Notes;
- (iii) applicable law;
- (iv) any instrument governing Indebtedness or Capital Stock of a Person acquired by the Issuer or any of its Restricted Subsidiaries as in effect at the time of such acquisition (except to the extent such Indebtedness or Capital Stock was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any other Person, or the properties or assets of any other Person; provided that, in the case of Indebtedness, such Indebtedness was permitted by the terms of this Indenture to be incurred;
- (v) customary non-assignment provisions in leases entered into in the ordinary course of business and consistent with past practices;

- (vi) purchase money obligations for property acquired in the ordinary course of business that impose restrictions on that property of the nature described in clause (3) of the preceding paragraph;
- (vii) any agreement for the sale or other disposition of a Restricted Subsidiary that restricts distributions by that Restricted Subsidiary pending its sale or other disposition;
- (viii) Permitted Refinancing Indebtedness; provided that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are no more restrictive, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced;
- (ix) Liens otherwise permitted to be incurred under Section 4.12 hereof that limit the right of the Issuer to dispose of the assets subject to such Liens;
- (x) provisions with respect to the disposition or distribution of assets or property in joint venture agreements, assets sale agreements, stock sale agreements and other similar agreements entered into in the ordinary course of business;
- (xi) restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business;
- (xii) any agreement governing Indebtedness of Foreign Subsidiaries permitted under Section 4.09 hereof; and
- (xiii) any agreement governing Indebtedness incurred after the Closing Date permitted under Section 4.09 hereof; provided that the restrictions contained therein are, in the good faith judgment of the Board of Directors, not materially less favorable, taken as a whole, to the Holders than those contained in agreements governing Existing Indebtedness.

SECTION 4.09. INCURRENCE OF INDEBTEDNESS AND ISSUANCE OF PREFERRED STOCK.

The Issuer shall not, and shall not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, "incur") any Indebtedness (including Acquired Debt), and shall not permit any of its Restricted Subsidiaries to issue any shares of preferred stock, unless the Fixed Charge Coverage Ratio for the Issuer's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such preferred stock is issued would have been at least 1.75 to 1, determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Indebtedness had been incurred or the preferred stock had been issued, as the case may be, at the beginning of such four-quarter period.

The first paragraph of this Section 4.09 shall not prohibit the incurrence of any of the following Indebtedness (collectively, "Permitted Debt"):

- (1) the incurrence of Indebtedness (a) under the Credit Agreement (with letters of credit being deemed to have a principal amount equal to the maximum potential liability thereunder) or (b) pursuant to a Qualified Securitization Program; provided that the aggregate amount of all Indebtedness incurred pursuant to this clause (1), including all Permitted Refinancing Indebtedness incurred to refund, refinance or replace any other Indebtedness incurred pursuant to this clause (1), does not exceed at any one time outstanding an amount equal to \$550.0 million, less the aggregate amount applied by the Issuer

and its Restricted Subsidiaries to repay Indebtedness under the Credit Agreement or a Qualified Securitization Program pursuant to Section 4.10 hereof;

(2) the incurrence of Existing Indebtedness;

(3) the incurrence of Indebtedness represented by the Notes to be issued on the Closing Date and the Exchange Notes to be issued in respect thereof pursuant to the Registration Rights Agreement;

(4) the incurrence of Indebtedness represented by Capital Lease Obligations, mortgage financings or purchase money obligations, in each case, incurred for the purpose of financing all or any part of the purchase price or cost of construction or improvement of property, plant or equipment used in the Issuer's business or the business of its Restricted Subsidiaries, in an aggregate amount at any one time outstanding, including all Permitted Refinancing Indebtedness incurred to refund, refinance or replace any Indebtedness incurred pursuant to this clause (4), not to exceed the greater of

(a) \$35.0 million and (b) 10.0% of the Issuer's Net Tangible Assets as of the date on which any such Indebtedness is incurred;

(5) the incurrence of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to refund, refinance or replace Indebtedness (other than intercompany Indebtedness) that was permitted by this Indenture to be incurred under the first paragraph of this covenant or clauses

(1), (2), (3), (4), (5), (11), (12) or (14) of this paragraph;

(6) the incurrence of Indebtedness among the Issuer and any of its Restricted Subsidiaries, or among any of its Restricted Subsidiaries; provided, however, that: (a) if the Issuer is an obligor with respect to such Indebtedness, such Indebtedness is expressly subordinated to the prior payment in full in cash of all Obligations with respect to the Notes, and (b) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than the Issuer or one of its Restricted Subsidiaries, and any sale or other transfer of any such Indebtedness to a Person that is not either the Issuer or one of its Restricted Subsidiaries, shall, in each case, be deemed to constitute an incurrence of such Indebtedness by the Issuer or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (6);

(7) the incurrence of Hedging Obligations that are incurred for the purpose of fixing or hedging interest rate risk with respect to any floating rate Indebtedness that is permitted by the terms of this Indenture to be outstanding;

(8) the guarantee by the Issuer or any of its Restricted Subsidiaries of Indebtedness that was permitted to be incurred by another provision of this Section 4.09;

(9) the accrual of interest, the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, and the payment of dividends on Disqualified Stock in the form of additional shares of the same class of Disqualified Stock;

(10) the incurrence by the Issuer's Foreign Subsidiaries of Indebtedness in an aggregate amount at any time outstanding not to exceed \$35.0 million;

(11) the incurrence by Persons that become Restricted Subsidiaries of Acquired Debt in an aggregate principal amount at the date of such incurrence not to exceed \$50.0 million; provided that (a) such Acquired Debt is not incurred in connection with, or in contemplation of, such Person merging with or into the Issuer or any of its other Restricted Subsidiaries and (b) liability for such Acquired Debt shall not extend to the Issuer or any of its other Restricted Subsidiaries, or any of their assets;

(12) incurrence by the Issuer in respect of industrial revenue bonds or other similar tax advantageous financings in an aggregate amount at any one time outstanding not to exceed \$50.0 million; provided that no more than \$25.0 million of such Indebtedness shall relate to assets or properties owned by the Issuer or any of its Restricted Subsidiaries on the Closing Date;

(13) the incurrence of Indebtedness arising from agreements providing for indemnification, adjustment of purchase price, earn out or similar obligations, in each case, incurred or assumed in connection with the disposition of any business, asset or Subsidiary, other than guarantees of Indebtedness incurred by any Person acquiring such business, asset or Subsidiary; provided, however, that the maximum amount of all such Indebtedness shall at no time exceed the gross proceeds actually received by the Issuer or its Restricted Subsidiaries in connection with such disposition;

(14) the incurrence of Indebtedness permitted to be incurred by the Issuer's Subsidiaries in the 2011 Note Indenture as such agreement is in effect on the Closing Date at a time when the fixed charge coverage ratio specified therein had been met or exceeded; and

(15) the incurrence of additional Indebtedness in an aggregate principal amount (or accreted value, as applicable) at any time outstanding not to exceed \$50.0 million.

For purposes of determining compliance with this Section 4.09, in the event that an item of proposed Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (15) above, or is entitled to be incurred pursuant to the first paragraph of this Section 4.09, the Issuer will be permitted to classify such item of Indebtedness on the date of its incurrence in any manner that complies with this Section 4.09.

SECTION 4.10. ASSET SALES.

The Issuer shall not, and shall not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless: (i) the Issuer or the Restricted Subsidiary, as the case may be, receives consideration at the time of the Asset Sale at least equal to the fair market value of the assets or Equity Interests issued or sold or otherwise disposed of; (ii) the fair market value is determined by the Issuer's Board of Directors and evidenced by a resolution of the Board of Directors set forth in an Officers' Certificate delivered to the Trustee; and (iii) at least 75% of the consideration received in the Asset Sale by the Issuer or such Restricted Subsidiary is in the form of cash. For purposes of this provision, each of the following will be deemed to be cash: (a) any liabilities, as shown on the Issuer's or such Restricted Subsidiary's most recent balance sheet, of the Issuer or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes) that are assumed by the transferee of any such assets; (b) any securities, notes or other obligations received by the Issuer or any such Restricted Subsidiary from such transferee that are contemporaneously, subject to ordinary settlement periods, converted or convertible by the Issuer or such Restricted Subsidiary into cash, to the extent of the cash received or that would be received in that conversion; and (c) long-term assets that are used or useful in a Permitted Business.

Within 18 months after the receipt of any Net Proceeds from an Asset Sale, the Issuer may apply those Net Proceeds, at the Issuer's option: (1) to repay the Issuer's Indebtedness and Indebtedness or any of its Restricted Subsidiaries of any of its Restricted Subsidiaries and, if the Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto; PROVIDED, HOWEVER, that if and to the extent that one of the Issuer's Restricted Subsidiaries makes an offer to purchase or otherwise redeem outstanding Indebtedness pursuant to an agreement governing such Indebtedness that requires that such offer be made with such Net Proceeds, then such Restricted Subsidiary will be deemed for purposes of this provision to have purchased or otherwise redeemed such

outstanding Indebtedness, whether or not such offer is accepted by the holders of such Indebtedness; (2) to acquire all or substantially all of the assets of, or a majority of the Voting Stock of, a Permitted Business; (3) to make a capital expenditure in a Permitted Business; or (4) to acquire other long-term assets that are used or useful in a Permitted Business.

Pending the final application of any Net Proceeds, the Issuer may temporarily reduce revolving credit borrowings or otherwise invest the Net Proceeds in any manner that is not prohibited by this Indenture.

Any Net Proceeds from Asset Sales that are not applied or invested as provided in the preceding paragraphs will constitute "Asset Sale Proceeds." When the aggregate amount of Asset Sale Proceeds exceeds the Threshold Amount, the Issuer shall make an Asset Sale Offer to all Holders of Notes and all holders of other Indebtedness that is pari passu with the Notes containing provisions similar to those set forth in this Indenture with respect to offers to purchase or redeem with the proceeds of sales of assets to purchase the maximum principal amount of Notes and such other pari passu Indebtedness that may be purchased out of the excess of such Asset Sale Proceeds over the Threshold Amount (such excess being referred to herein as the "EXCESS PROCEEDS"); PROVIDED, HOWEVER, that (i) the Issuer shall not be obligated to make an Asset Sale Offer until the aggregate amount of Excess Proceeds exceeds \$5.0 million and (ii) Net Proceeds received by a Restricted Subsidiary that is subject to a contractual restriction on its ability to dividend such Net Proceeds to the Issuer shall not constitute Excess Proceeds for so long as such restriction would either prohibit such dividend or reduce the amount of other dividends payable to the Issuer. The offer price in any Asset Sale Offer will be equal to 100% of principal amount plus accrued and unpaid interest and Liquidated Damages, if any, to the date of purchase, and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, we may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes and other PARI PASSU Indebtedness tendered into such Asset Sale Offer exceeds the amount of Excess Proceeds, the Trustee will select the Notes and such other PARI PASSU Indebtedness to be purchased on a pro rata basis. Upon completion of each Asset Sale Offer, the aggregate amount of Asset Sale Proceeds will be reduced by the amount of Excess Proceeds relating to such Asset Sale Offer.

SECTION 4.11. TRANSACTIONS WITH AFFILIATES.

The Issuer shall not, and shall not permit any of its Restricted Subsidiaries to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its respective properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate (each, an "Affiliate Transaction"), unless: (1) the Affiliate Transaction is on terms that are no less favorable to the Issuer or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by us or such Restricted Subsidiary with an unrelated Person; and (2) the Issuer delivers to the Trustee: (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$10.0 million, a resolution of the Board of Directors set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with this covenant and that such Affiliate Transaction has been approved by a majority of the members of the Board of Directors who have no personal stake in the transaction and who are not Affiliates of any party (other than the Issuer and its Restricted Subsidiaries) to the transaction ("disinterested members"); provided that if there are no disinterested members of the Board of Directors, the Issuer shall deliver to the Trustee an opinion as to the fairness to the Holders of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of national standing; and (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$30.0 million, an opinion as to the fairness to the Holders of such Affiliate Transaction from a

financial point of view issued by an accounting, appraisal or investment banking firm of national standing.

The following items shall not be deemed to be Affiliate Transactions and, therefore, shall not be subject to the provisions of the prior paragraph:

(1) any transaction with the Issuer's employees or employees of any of its Restricted Subsidiaries, including entering into compensation plans, entered into in the ordinary course of business and consistent with the Issuer's past practice or the past practice of such Restricted Subsidiary; (2) transactions between or among the Issuer and its Restricted Subsidiaries; (3) transactions with a Person that is an Affiliate of the Issuer solely because the Issuer owns an Equity Interest in, or control, such Person; (4) payment of reasonable compensation (including stock and option compensation) and expense reimbursements to members of the Board of Directors who are not otherwise Affiliates of the Issuer; (5) sales of Equity Interests (other than Disqualified Stock) to Affiliates of the Issuer; (6) sales of inventory to BMCA and its Subsidiaries in the ordinary course of business; (7) transactions pursuant to the Management Agreement as in effect on the Closing Date, and amendments thereto that do not adversely affect in any material respect the Issuer, its Restricted Subsidiaries or the Holders; (8) any sale, conveyance or other transfer of accounts receivable and other related assets customarily transferred in an accounts receivable securitization program in a Qualified Securitization Program; and (9) Restricted Payments that are permitted by the provisions of this Indenture described above under Section 4.07 hereof.

SECTION 4.12. LIENS.

The Issuer shall not, directly or indirectly, create, incur, assume or suffer to exist any Lien of any kind securing its Indebtedness, its Attributable Debt or its trade payables on any asset now owned or hereafter acquired, except Permitted Liens, unless the Notes are secured by a Lien on such assets on an equal and ratable basis.

SECTION 4.13. BUSINESS ACTIVITIES.

The Issuer shall not, and shall not permit any Restricted Subsidiary to, engage in any business other than Permitted Businesses, except to such extent as would not be material to the Issuer and the Issuer's Restricted Subsidiaries taken as a whole.

SECTION 4.14. CORPORATE EXISTENCE.

Subject to Article 5 hereof, the Issuer shall do or cause to be done all things necessary to preserve and keep in full force and effect (i) its corporate existence, and the corporate, partnership or other existence of each of its Subsidiaries, in accordance with the respective organizational documents (as the same may be amended from time to time) of the Issuer or any such Subsidiary and (ii) the rights (charter and statutory), licenses and franchises of the Issuer and its Subsidiaries; PROVIDED, HOWEVER, that the Issuer shall not be required to preserve any such right, license or franchise, or the corporate, partnership or other existence of any of its Subsidiaries, if the Board of Directors shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Issuer and its Subsidiaries, taken as a whole, and the Issuer may convert or cause its Subsidiaries to convert (either by statute, merger or similar means) from a corporation to a limited liability company, or vice versa, in each case if the loss or conversion thereof is not adverse in any material respect to the Holders of the Notes.

SECTION 4.15. OFFER TO REPURCHASE UPON CHANGE OF CONTROL.

(a) Upon the occurrence of a Change of Control, the Issuer shall make an offer (a "CHANGE OF CONTROL OFFER") to each Holder to repurchase all or any part (equal to \$1,000 or an integral multiple

thereof) of each Holder's Notes (other than Notes previously called for redemption) at a purchase price equal to 101% of the aggregate principal amount thereof plus accrued and unpaid interest and Liquidated Damages thereon, if any, on the Notes repurchased, to the date of purchase (the "CHANGE OF CONTROL PAYMENT"). Within 30 days following any Change of Control, the Issuer shall mail a notice to each Holder stating: (1) that the Change of Control Offer is being made pursuant to this Section 4.15 and that all Notes tendered will be accepted for payment; (2) the purchase price and the purchase date, which shall be no earlier than 30 days and no later than 60 business days from the date such notice is mailed (the "CHANGE OF CONTROL PAYMENT DATE"); (3) that any Note not tendered will continue to accrue interest; (4) that, unless the Issuer defaults in the payment of the Change of Control Payment, all Notes accepted for payment pursuant to the Change of Control Offer shall cease to accrue interest after the Change of Control Payment Date; (5) that Holders electing to have any Notes purchased pursuant to a Change of Control Offer will be required to surrender the Notes, with the form entitled "Option of Holder to Elect Purchase" on the reverse of the Notes completed, to the Paying Agent at the address specified in the notice prior to the close of business on the third Business Day preceding the Change of Control Payment Date; (6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the second Business Day preceding the Change of Control Payment Date, a telegram, telex, facsimile transmission or letter setting forth the name of the Holder, the principal amount of Notes delivered for purchase, and a statement that such Holder is withdrawing his election to have the Notes purchased; and (7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered, which unpurchased portion must be equal to \$1,000 in principal amount or an integral multiple thereof. The Issuer shall comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of Notes in connection with a Change of Control.

(b) On the Change of Control Payment Date, the Issuer shall, to the extent lawful, (1) accept for payment all Notes or portions thereof properly tendered pursuant to the Change of Control Offer, (2) deposit with the Paying Agent an amount equal to the Change of Control Payment in respect of all Notes or portions thereof properly tendered and (3) deliver or cause to be delivered to the Trustee the Notes properly accepted together with an Officers' Certificate stating the aggregate principal amount of Notes or portions thereof being purchased by the Issuer. The Paying Agent shall promptly mail to each Holder of Notes properly tendered the Change of Control Payment for such Notes, and the Trustee shall promptly authenticate and mail (or cause to be transferred by book entry) to each Holder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered, if any; PROVIDED that each new Note will be in a principal amount of \$1,000 or an integral multiple of \$1,000.

(c) Prior to complying with any of the provisions of this Section 4.15, but in any event within 90 days following a Change of Control, the Issuer shall either repay all outstanding Senior Debt or obtain the requisite consents, if any, under all agreements governing outstanding Senior Debt to permit the repurchase of Notes required by this Section 4.15. The Issuer shall publicly announce the result of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

(d) Notwithstanding anything to the contrary in this Section 4.15, the Issuer shall not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in this Section 4.15 and Section 3.09 hereof and all other provisions of this Indenture applicable to a Change of Control Offer made by the Issuer and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

SECTION 4.16. PAYMENTS FOR CONSENT.

The Issuer shall not, and shall not permit any of its Restricted Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any Holder of Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of this Indenture or the Notes unless such consideration is offered to be paid and is paid to all Holders of the Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

SECTION 4.17. DESIGNATION OF RESTRICTED AND UNRESTRICTED SUBSIDIARIES.

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary if that designation would not cause a Default. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate fair market value at the time of the designation of all outstanding Investments owned by the Issuer and its Restricted Subsidiaries in the Subsidiary properly designated shall be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Payments under the first paragraph of Section 4.07 or Permitted Investments, as determined by the Issuer. That designation shall only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. The Board of Directors may redesignate any Unrestricted Subsidiary to be a Restricted Subsidiary if the redesignation would not cause a Default.

SECTION 4.18. CHANGES IN COVENANTS WHEN NOTES RATED INVESTMENT GRADE.

Following the first date upon which, but only for so long as (1) the Notes are rated Baa3 or better by Moody's Investors Services, Inc. and BBB- or better by Standard & Poor's Ratings Services (or, in either case, if such Person ceases to rate the Notes for reasons outside of the control of the Issuer, the equivalent investment grade credit rating from any other "nationally recognized statistical rating organization" (within the meaning of Rule 15c3-1 (c) (2) (vi) (F) under the Exchange Act) selected by the Issuer as a replacement agency); (2) neither Moody's Investors Services, Inc. nor Standard & Poor's Ratings Services has attached any "negative outlook" to such rating of the Notes; and (3) no Default or Event of Default has occurred and is continuing, the covenants listed under Sections 4.07, 4.08, 4.09, 4.10, 4.11, 4.13 and 4.17 shall no longer be applicable to the Notes, all Unrestricted Subsidiaries shall become Restricted Subsidiaries, and any then-existing Indebtedness of Unrestricted Subsidiaries shall constitute Existing Indebtedness.

SECTION 4.19. ESCROW ACCOUNT.

On the Closing Date, the Issuer shall place a portion of the net proceeds of the offering of the Initial Notes into the Escrow Account and pledge such account to the Trustee as security for the benefit of the Holders in accordance with the Escrow Agreement. Pursuant to the terms of the Escrow Account, the assets in the Escrow Account shall only be used to redeem or otherwise retire the outstanding 2003 Notes. Pending such use, the assets in the Escrow Account may only be invested in The Wilmington U.S. Government Portfolio/ Service Class Shares or, if such fund is no longer in existence, Cash Equivalents and Government Securities, and the Issuer shall grant a security interest in the Escrow Account to the Trustee for the benefit of the Holders. Following retirement of the 2003 Notes, any remaining assets in the Escrow Account shall be released to the Issuer.

ARTICLE 5. SUCCESSORS

SECTION 5.01. MERGER, CONSOLIDATION, OR SALE OF ASSETS.

The Issuer shall not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not the Issuer is the surviving corporation); or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of the Issuer and its Subsidiaries, taken as a whole, in one or more related transactions, to another Person; unless: (1) either: (a) the Issuer is the surviving corporation; or (b) the Person formed by or surviving any such consolidation or merger (if other than the Issuer) or to which such sale, assignment, transfer, conveyance or other disposition has been made is a corporation organized or existing under the laws of the United States, any state of the United States or the District of Columbia; (2) the Person formed by or surviving any such consolidation or merger (if other than the Issuer) or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made (if other than the Issuer) assumes all the Issuer's Obligations under the Notes, this Indenture and the Registration Rights Agreement pursuant to agreements reasonably satisfactory to the Trustee; (3) immediately after such transaction no Default or Event of Default exists; and (4) the Issuer or the Person formed by or surviving any such consolidation or merger (if other than the Issuer), or to which such sale, assignment, transfer, conveyance or other disposition has been made: (a) shall have Consolidated Net Worth immediately after the transaction equal to or greater than the Issuer's Consolidated Net Worth immediately preceding the transaction; and (b) shall, on the date of such transaction after giving pro forma effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period, be permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of Section 4.09 hereof. In addition, the Issuer shall not, directly or indirectly, lease all or substantially all of its properties or assets, in one or more related transactions, to any other Person. This Section 5.01 shall not apply to a sale, assignment, transfer, conveyance or other disposition of assets between or among the Issuer and its Restricted Subsidiaries and shall not apply to a sale, assignment, transfer, conveyance or other disposition of all or any portion of the assets of Unrestricted Subsidiaries.

SECTION 5.02. SUCCESSOR CORPORATION SUBSTITUTED.

Upon any consolidation or merger, or any sale, assignment, transfer, lease, conveyance or other disposition of all or substantially all of the assets of the Issuer in accordance with Section 5.01 hereof, the successor corporation formed by such consolidation or into or with which the such predecessor Issuer is merged or to which such sale, assignment, transfer, lease, conveyance or other disposition is made shall succeed to, and be substituted for (so that from and after the date of such consolidation, merger, sale, lease, conveyance or other disposition, the provisions of this Indenture referring to the "Issuer" or an "Issuer" shall refer instead to the successor corporation and not to such predecessor Issuer), and may exercise every right and power of the Issuer under this Indenture with the same effect as if such successor Person had been named as the Issuer herein; PROVIDED, HOWEVER, that the predecessor Issuer shall not be relieved from the obligation to pay the principal of and interest on the Notes except in the case of a sale, assignment, transfer, conveyance or other disposition of all of the predecessor Issuer's assets that meets the requirements of Section 5.01 hereof.

ARTICLE 6.
DEFAULTS AND REMEDIES

SECTION 6.01. EVENTS OF DEFAULT.

An "Event of Default" occurs if:

- (a) the Issuer defaults for 30 days in the payment when due of interest on or Liquidated Damages with respect to the Notes;
- (b) the Issuer defaults in the payment when due of the principal of or premium, if any, on the Notes;
- (c) the Issuer fails to comply with the provisions described under Sections 4.10, 4.15 or 5.01 hereof unless such provisions are not at the time applicable as set forth under Section 4.18 hereof;
- (d) the Issuer fails to comply with the provisions described under Sections 4.07 or 4.09 hereof, unless such provisions are not at the time applicable as set forth under Section 4.18 hereof, and such failure continues for 30 days;
- (e) the Issuer fails for 60 days after notice to the Issuer by the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes (including Additional Notes, if any) then outstanding voting as a single class to comply with any of the other agreements in this Indenture or the Pledge Agreement (except as provided in (k) below);
- (f) a default occurs under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Issuer or any of its Restricted Subsidiaries (or the payment of which is guaranteed by the Issuer or any of its Restricted Subsidiaries) whether such Indebtedness or guarantee now exists, or is created after the date of this Indenture, if that default:
 - (i) is caused by a failure to pay principal of or interest or premium, if any, on such Indebtedness (after giving effect to any applicable grace period provided in such Indebtedness on the date of such default) (a "Payment Default"); or
 - (ii) results in the acceleration of such Indebtedness prior to its express maturity,and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates \$15.0 million or more;
- (g) failure by the Issuer or any of its Restricted Subsidiaries to pay final judgments aggregating in excess of \$15.0 million, which judgments are not paid, discharged or stayed within 60 days;
- (h) the Issuer shall fail to place the amount contemplated in the Escrow Agreement into the Escrow Account on the Closing Date; or ISP shall fail to retire the 2003 Notes on or prior to maturity;
- (i) the Issuer or any of its Restricted Subsidiaries:
 - (1) commences a voluntary case;

(2) consents to the entry of an order for relief against it in an involuntary case;

(3) consents to the appointment of a custodian of it or for all or substantially all of its property;

(4) makes a general assignment for the benefit of its creditors; or

(5) generally is not paying its debts as they become due; or

(j) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(1) is for relief against the Issuer or any of its Restricted Subsidiaries in an involuntary case;

(2) appoints a custodian of the Issuer or any of its Restricted Subsidiaries or for all or substantially all of the property of the Issuer or any of its Restricted Subsidiaries; or

(3) orders the liquidation of the Issuer or any of its Restricted Subsidiaries;

and the order or decree remains unstayed and in effect for 60 consecutive days;

(k) (i) the repudiation by the Issuer of its obligations under the Pledge Agreement or (ii) the validity, priority or perfection of the lien created by the Pledge Agreement fails to be in full force in effect (whether through the unenforceability of the Pledge Agreement or otherwise).

SECTION 6.02. ACCELERATION.

If any Event of Default (other than an Event of Default specified in clause (i) or (j) of Section 6.01 hereof with respect to the Issuer, any Restricted Subsidiary that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary) occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the then outstanding Notes may declare all the Notes to be due and payable immediately. Upon any such declaration, the Notes shall become due and payable immediately. Notwithstanding the foregoing, if an Event of Default specified in clause (i) or (j) of Section 6.01 hereof occurs with respect to the Issuer, any Restricted Subsidiary that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary, all outstanding Notes shall be due and payable immediately without further action or notice. The Holders of a majority in aggregate principal amount of the then outstanding Notes by written notice to the Trustee may on behalf of all of the Holders rescind an acceleration and its consequences if the rescission would not conflict with any judgment or decree and if all existing Events of Default (except nonpayment of principal, interest or premium that has become due solely because of the acceleration) have been cured or waived.

If an Event of Default occurs on or after December 15, 2005 by reason of any willful action (or inaction) taken (or not taken) by or on behalf of the Issuer with the intention of avoiding payment of the premium that the Issuer would have had to pay if the Issuer then had elected to redeem the Notes pursuant to Section 3.07 hereof, then, upon acceleration of the Notes, an equivalent premium shall also become and be immediately due and payable, to the extent permitted by law, anything in this Indenture or in the Notes to the contrary notwithstanding. If an Event of Default occurs prior to December 15, 2005 by reason of any willful action (or inaction) taken (or not taken) by or on behalf of the Issuer with the intention of avoiding the prohibition on redemption of the Notes prior to such date, then, upon acceleration of the

Notes, an additional premium shall also become and be immediately due and payable in an amount, for each of the years beginning on December 15 of the years set forth below, as set forth below (expressed as a percentage of the principal amount of the Notes on the date of payment that would otherwise be due but for the provisions of this sentence):

YEAR	PERCENTAGE
----	-----
2002.....	10.626%
2003.....	8.855%
2004.....	7.084%

SECTION 6.03. OTHER REMEDIES.

If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy to collect the payment of principal, premium, if any, and interest on the Notes or to enforce the performance of any provision of the Notes or this Indenture.

The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Holder of a Note in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. All remedies are cumulative to the extent permitted by law.

SECTION 6.04. WAIVER OF PAST DEFAULTS.

Holders of not less than a majority in aggregate principal amount of the then outstanding Notes by notice to the Trustee may on behalf of the Holders of all of the Notes waive an existing Default or Event of Default and its consequences hereunder, except a continuing Default or Event of Default in the payment of the principal of, premium and Liquidated Damages, if any, or interest on, the Notes (including in connection with an offer to purchase) (PROVIDED, HOWEVER, that the Holders of a majority in aggregate principal amount of the then outstanding Notes may rescind an acceleration and its consequences, including any related payment default that resulted from such acceleration). Upon any such waiver, such Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereon.

SECTION 6.05. CONTROL BY MAJORITY.

Holders of a majority in principal amount of the then outstanding Notes may direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee or exercising any trust or power conferred on it. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture that the Trustee determines may be unduly prejudicial to the rights of other Holders of Notes or that may involve the Trustee in personal liability.

SECTION 6.06. LIMITATION ON SUITS.

A Holder of a Note may pursue a remedy with respect to this Indenture or the Notes only if:

- (a) the Holder of a Note gives to the Trustee written notice of a continuing Event of Default;
- (b) the Holders of at least 25% in principal amount of the then outstanding Notes make a written request to the Trustee to pursue the remedy;

(c) such Holder of a Note or Holders of Notes offer and, if requested, provide to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense;

(d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer and, if requested, the provision of indemnity; and

(e) during such 60-day period the Holders of a majority in principal amount of the then outstanding Notes do not give the Trustee a direction inconsistent with the request.

A Holder of a Note may not use this Indenture to prejudice the rights of another Holder of a Note or to obtain a preference or priority over another Holder of a Note.

SECTION 6.07. RIGHTS OF HOLDERS OF NOTES TO RECEIVE PAYMENT.

Notwithstanding any other provision of this Indenture, the right of any Holder of a Note to receive payment of principal, premium and Liquidated Damages, if any, and interest on the Note, on or after the respective due dates expressed in the Note (including in connection with an offer to purchase), or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder.

SECTION 6.08. COLLECTION SUIT BY TRUSTEE.

If an Event of Default specified in Section 6.01(a) or (b) occurs and is continuing, the Trustee is authorized to recover judgment in its own name and as trustee of an express trust against the Issuer for the whole amount of principal of, premium and Liquidated Damages, if any, and interest remaining unpaid on the Notes and interest on overdue principal and, to the extent lawful, interest and such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

SECTION 6.09. TRUSTEE MAY FILE PROOFS OF CLAIM.

The Trustee is authorized to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and the Holders of the Notes allowed in any judicial proceedings relative to the Issuer (or any other obligor upon the Notes), their creditors or their properties and shall be entitled and empowered to participate as a member, voting or otherwise, of any official committee of creditors appointed in such matter and to collect, receive and distribute any money or other property payable or deliverable on any such claims and any custodian in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee, and in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 7.07 hereof. To the extent that the payment of any such compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 7.07 hereof out of the estate in any such proceeding, shall be denied for any reason, payment of the same shall be secured by a Lien on, and shall be paid out of, any and all distributions, dividends, money, securities and other properties that the Holders may be entitled to receive in such proceeding whether in liquidation or under any plan of reorganization or arrangement or otherwise. Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or

composition affecting the Notes or the rights of any Holder, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

SECTION 6.10. PRIORITIES.

If the Trustee collects any money pursuant to this Article, it shall pay out the money in the following order:

FIRST: to the Trustee, its agents and attorneys for amounts due under Section 7.07 hereof, including payment of all compensation, expense and liabilities incurred, and all advances made, by the Trustee and the costs and expenses of collection;

SECOND: to Holders of Notes for amounts due and unpaid on the Notes for principal, premium and Liquidated Damages, if any, and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Notes for principal, premium and Liquidated Damages, if any and interest, respectively; and

THIRD: to the Issuer or to such party as a court of competent jurisdiction shall direct.

The Trustee may fix a record date and payment date for any payment to Holders of Notes pursuant to this Section 6.10.

SECTION 6.11. UNDERTAKING FOR COSTS.

In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as a Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit by the Trustee, a suit by a Holder of a Note pursuant to Section 6.07 hereof, or a suit by Holders of more than 10% in principal amount of the then outstanding Notes.

ARTICLE 7. TRUSTEE

SECTION 7.01. DUTIES OF TRUSTEE.

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in its exercise, as a prudent Person would exercise or use under the circumstances in the conduct of such Person's own affairs.

(b) Except during the continuance of an Event of Default:

(i) the duties of the Trustee shall be determined solely by the express provisions of this Indenture and the Trustee need perform only those duties that are specifically set forth in this Indenture and no others, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(ii) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture. However, the Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture (but need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein or otherwise verify the contents thereof).

(c) The Trustee may not be relieved from liabilities for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(i) this paragraph does not limit the effect of paragraph (b) of this Section;

(ii) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; and

(iii) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 6.05 hereof.

(d) Whether or not therein expressly so provided, every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (a), (b), and (c) of this Section.

(e) No provision of this Indenture shall require the Trustee to expend or risk its own funds or incur any liability. The Trustee shall be under no obligation to exercise any of its rights and powers under this Indenture at the request of any Holders, unless such Holder shall have offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense, including reasonable attorneys' fees that might be incurred by it in compliance with such request or direction.

(f) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree in writing with the Issuer. Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

SECTION 7.02. RIGHTS OF TRUSTEE.

(a) The Trustee may conclusively rely upon any document believed by it to be genuine and to have been signed or presented by the proper Person. The Trustee need not investigate any fact or matter stated in the document.

(b) Before the Trustee acts or refrains from acting, it may require an Officers' Certificate or an Opinion of Counsel or both. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such Officers' Certificate or Opinion of Counsel. The Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection from liability in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(c) The Trustee may act through its attorneys and agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith that it believes to be authorized or within the rights or powers conferred upon it by this Indenture.

(e) Unless otherwise specifically provided in this Indenture, any demand, request, direction or notice from the Issuer shall be sufficient if signed by an Officer of the Issuer.

(f) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses (including reasonable attorneys' fees) and liabilities that might be incurred by it in compliance with such request or direction.

SECTION 7.03. INDIVIDUAL RIGHTS OF TRUSTEE.

The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Issuer or any Affiliate of the Issuer with the same rights it would have if it were not Trustee. However, in the event that the Trustee acquires any conflicting interest it must eliminate such conflict within 90 days, apply to the SEC for permission to continue as trustee or resign. Any Agent may do the same with like rights and duties. The Trustee is also subject to Sections 7.10 and 7.11 hereof.

SECTION 7.04. TRUSTEE'S DISCLAIMER.

The Trustee shall not be responsible for and makes no representation as to the validity or adequacy of this Indenture or the Notes, it shall not be accountable for the Issuer's use of the proceeds from the Notes or any money paid to the Issuer or upon the Issuer's direction under any provision of this Indenture, it shall not be responsible for the use or application of any money received by any Paying Agent other than the Trustee, and it shall not be responsible for any statement or recital herein or any statement in the Notes or any other document in connection with the sale of the Notes or pursuant to this Indenture other than its certificate of authentication.

SECTION 7.05. NOTICE OF DEFAULTS.

If a Default or Event of Default occurs and is continuing and if it is known to the Trustee, the Trustee shall mail to Holders of Notes a notice of the Default or Event of Default within 90 days after it occurs. Except in the case of a Default or Event of Default in payment of principal of, premium, if any, or interest on any Note, the Trustee may withhold the notice if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of the Holders of the Notes.

SECTION 7.06. REPORTS BY TRUSTEE TO HOLDERS OF THE NOTES.

Within 60 days after each May 15 beginning with the May 15 following the date of this Indenture, and for so long as Notes remain outstanding, the Trustee shall mail to the Holders of the Notes a brief report dated as of such reporting date that complies with TIA ss. 313(a) (but if no event described in TIA ss. 313(a) has occurred within the twelve months preceding the reporting date, no report need be transmitted). The Trustee also shall comply with TIA ss. 313(b)(2). The Trustee shall also transmit by mail all reports as required by TIA ss. 313(c).

A copy of each report at the time of its mailing to the Holders of Notes shall be mailed to the Issuer and filed with the SEC and each stock exchange on which the Notes are listed in accordance with TIA ss. 313(d). The Issuer shall promptly notify the Trustee when the Notes are listed on any stock exchange.

SECTION 7.07. COMPENSATION AND INDEMNITY.

The Issuer shall pay to the Trustee from time to time reasonable compensation for its acceptance of this Indenture and services hereunder. The Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Issuer shall reimburse the Trustee promptly upon request for all reasonable disbursements, advances and expenses incurred or made by it in addition to the compensation for its services. Such expenses shall include the reasonable compensation, disbursements and expenses of the Trustee's agents and counsel.

The Issuer shall indemnify the Trustee against any and all losses, liabilities or expenses incurred by it arising out of or in connection with the acceptance or administration of its duties under this Indenture, including the costs and expenses of enforcing this Indenture against the Issuer (including this Section 7.07) and defending itself against any claim (whether asserted by the Issuer or any Holder or any other Person) or liability in connection with the exercise or performance of any of its powers or duties hereunder, except to the extent any such loss, liability or expense may be attributable to its negligence or bad faith. The Trustee shall notify the Issuer promptly of any claim for which it may seek indemnity. Failure by the Trustee to so notify the Issuer shall not relieve the Issuer of its obligations hereunder. The Issuer shall defend the claim and the Trustee shall cooperate in the defense. The Trustee may have separate counsel and the Issuer shall pay the reasonable fees and expenses of such counsel. The Issuer need not pay for any settlement made without its consent, which consent shall not be unreasonably withheld, delayed or conditioned.

The obligations of the Issuer under this Section 7.07 shall survive the satisfaction and discharge of this Indenture.

To secure the Issuer's payment obligations in this Section, the Trustee shall have a Lien prior to the Notes on all money or property held or collected by the Trustee, except that held in trust to pay principal and interest on particular Notes. Such Lien shall survive the satisfaction and discharge of this Indenture.

When the Trustee incurs expenses or renders services after an Event of Default specified in Section 6.01(g) or (h) hereof occurs, the expenses and the compensation for the services (including the fees and expenses of its agents and counsel) are intended to constitute expenses of administration under any Bankruptcy Law.

The Trustee shall comply with the provisions of TIA ss. 313(b)(2) to the extent applicable.

SECTION 7.08. REPLACEMENT OF TRUSTEE.

A resignation or removal of the Trustee and appointment of a successor Trustee shall become effective only upon the successor Trustee's acceptance of appointment as provided in this Section.

The Trustee may resign in writing at any time and be discharged from the trust hereby created by so notifying the Issuer. The Holders of a majority in principal amount of the then outstanding Notes may remove the Trustee by so notifying the Trustee and the Issuer in writing. The Issuer may remove the Trustee if:

- (a) the Trustee fails to comply with Section 7.10 hereof;
- (b) the Trustee is adjudged a bankrupt or an insolvent or an order for relief is entered with respect to the Trustee under any Bankruptcy Law;

(c) a custodian or public officer takes charge of the Trustee or its property; or

(d) the Trustee becomes incapable of acting.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Issuer shall promptly appoint a successor Trustee. Within one year after the successor Trustee takes office, the Holders of a majority in principal amount of the then outstanding Notes may appoint a successor Trustee to replace the successor Trustee appointed by the Issuer.

If a successor Trustee does not take office within 60 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Issuer, or the Holders of at least 10% in principal amount of the then outstanding Notes may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee, after written request by any Holder who has been a Holder for at least six months, fails to comply with Section 7.10, such Holder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Issuer. Thereupon, the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to Holders. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee; PROVIDED all sums owing to the Trustee hereunder have been paid and subject to the Lien provided for in Section 7.07 hereof. Notwithstanding replacement of the Trustee pursuant to this Section 7.08, the Issuer's obligations under Section 7.07 hereof shall continue for the benefit of the retiring Trustee.

SECTION 7.09. SUCCESSOR TRUSTEE BY MERGER, ETC.

If the Trustee consolidates, merges or converts into, or transfers all or substantially all of its corporate trust business to, another corporation, the successor corporation without any further act shall be the successor Trustee.

SECTION 7.10. ELIGIBILITY; DISQUALIFICATION.

There shall at all times be a Trustee hereunder that is a corporation organized and doing business under the laws of the United States of America or of any state thereof that is authorized under such laws to exercise corporate trustee power, that is subject to supervision or examination by federal or state authorities and that has a combined capital and surplus of at least \$50 million as set forth in its most recent published annual report of condition.

This Indenture shall always have a Trustee who satisfies the requirements of TIA ss. 310(a)(1), (2) and (5). The Trustee is subject to TIA ss. 310(b).

SECTION 7.11. PREFERENTIAL COLLECTION OF CLAIMS AGAINST ISSUER.

The Trustee is subject to TIA ss. 311(a), excluding any creditor relationship listed in TIA ss. 311(b). A Trustee who has resigned or been removed shall be subject to TIA ss. 311(a) to the extent indicated therein.

ARTICLE 8.
LEGAL DEFEASANCE AND COVENANT DEFEASANCE

SECTION 8.01. OPTION TO EFFECT LEGAL DEFEASANCE OR COVENANT DEFEASANCE.

The Issuer may, at the option of its Board of Directors evidenced by a resolution set forth in an Officers' Certificate, at any time, elect to have either Section 8.02 or 8.03 hereof be applied to all outstanding Notes upon compliance with the conditions set forth below in this Article 8.

SECTION 8.02. LEGAL DEFEASANCE AND DISCHARGE.

Upon the Issuer's exercise under Section 8.01 hereof of the option applicable to this Section 8.02, the Issuer shall, subject to the satisfaction of the conditions set forth in Section 8.04 hereof, be deemed to have been discharged from its obligations with respect to all outstanding Notes on the date the conditions set forth below are satisfied (hereinafter, "LEGAL DEFEASANCE"). For this purpose, Legal Defeasance means that the Issuer shall be deemed to have paid and discharged the entire Indebtedness represented by the outstanding Notes, which shall thereafter be deemed to be "outstanding" only for the purposes of Section 8.05 hereof and the other Sections of this Indenture referred to in (a) and (b) below, and to have satisfied all its other obligations under such Notes and this Indenture (and the Trustee, on demand of and at the expense of the Issuer, shall execute proper instruments acknowledging the same), except for the following provisions which shall survive until otherwise terminated or discharged hereunder: (a) the rights of Holders of outstanding Notes to receive solely from the trust fund described in Section 8.04 hereof, and as more fully set forth in such Section, payments in respect of the principal of, premium, if any, interest and Liquidated Damages, if any, on such Notes when such payments are due, (b) the Issuer's obligations with respect to such Notes under Article 2 and Section 4.02 hereof, (c) the rights, powers, trusts, duties and immunities of the Trustee hereunder and the Issuer's obligations in connection therewith and (d) this Article 8. Subject to compliance with this Article Eight, the Issuer may exercise its option under this Section 8.02 notwithstanding the prior exercise of its option under Section 8.03 hereof.

SECTION 8.03. COVENANT DEFEASANCE.

Upon the Issuer's exercise under Section 8.01 hereof of the option applicable to this Section 8.03, the Issuer shall, subject to the satisfaction of the conditions set forth in Section 8.04 hereof, be released from its obligations under the covenants contained in Sections 4.07, 4.08, 4.09, 4.10, 4.11, 4.12, 4.13, 4.15, 4.16, 4.17, 4.18 and 4.19 hereof and clause (iv) of Section 5.01 hereof with respect to the outstanding Notes on and after the date the conditions set forth in Section 8.04 are satisfied (hereinafter, "COVENANT DEFEASANCE"), and the Notes shall thereafter be deemed not "outstanding" for the purposes of any direction, waiver, consent or declaration or act of Holders (and the consequences of any thereof) in connection with such covenants, but shall continue to be deemed "outstanding" for all other purposes hereunder (it being understood that such Notes shall not be deemed outstanding for accounting purposes). For this purpose, Covenant Defeasance means that, with respect to the outstanding Notes, the Issuer may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such covenant, whether directly or indirectly, by reason of any reference elsewhere herein to any such covenant or by reason of any reference in any such covenant to any other provision herein or in any other document and such omission to comply shall not constitute a Default or an Event of Default under Section 6.01 hereof, but, except as specified above, the remainder of this Indenture and such Notes shall be unaffected thereby. In addition, upon the Issuer's exercise under Section 8.01 hereof of the option applicable to this Section 8.03 hereof, subject to the satisfaction of the conditions set forth in Section 8.04 hereof, Sections 6.01(c) through 6.01(g) hereof shall not constitute Events of Default.

SECTION 8.04. CONDITIONS TO LEGAL OR COVENANT DEFEASANCE.

The following shall be the conditions to the application of either Section 8.02 or 8.03 hereof to the outstanding Notes:

In order to exercise either Legal Defeasance or Covenant Defeasance:

- (a) the Issuer must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders, cash in United States dollars, non-callable Government Securities, or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, premium and Liquidated Damages, if any, and interest on the outstanding Notes on the stated date for payment thereof or on the applicable redemption date, as the case may be, and the Issuer must specify whether the Notes are being defeased to maturity or to a particular redemption date;
- (b) in the case of an election under Section 8.02 hereof, the Issuer shall have delivered to the Trustee an Opinion of Counsel in the United States reasonably acceptable to the Trustee confirming that (A) the Issuer has received from, or there has been published by, the Internal Revenue Service a ruling or (B) since the date of this Indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel shall confirm that, the Holders of the outstanding Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;
- (c) in the case of an election under Section 8.03 hereof, the Issuer shall have delivered to the Trustee an Opinion of Counsel in the United States reasonably acceptable to the Trustee confirming that the Holders of the outstanding Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;
- (d) no Default or Event of Default shall have occurred and be continuing on the date of such deposit (other than a Default or Event of Default resulting from the incurrence of Indebtedness all or a portion of the proceeds of which will be used to defease the Notes pursuant to this Article 8 concurrently with such incurrence);
- (e) such Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under, any material agreement or instrument (other than this Indenture) to which the Issuer or any of its Subsidiaries is a party or by which the Issuer or any of its Subsidiaries is bound;
- (f) the Issuer shall have delivered to the Trustee an Officers' Certificate stating that the deposit was not made by the Issuer with the intent of preferring the Holders over any other creditors of the Issuer or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Issuer; and
- (g) the Issuer shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for or relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

SECTION 8.05. DEPOSITED MONEY AND GOVERNMENT SECURITIES TO BE HELD IN TRUST; OTHER MISCELLANEOUS PROVISIONS.

Subject to Section 8.06 hereof, all money and non-callable Government Securities (including the proceeds thereof) deposited with the Trustee (or other qualifying trustee, collectively for purposes of this Section 8.05, the "Trustee") pursuant to Section 8.04 hereof in respect of the outstanding Notes shall be held in trust and applied by the Trustee, in accordance with the provisions of such Notes and this Indenture, to the payment, either directly or through any Paying Agent (including the Issuer acting as Paying Agent) as the Trustee may determine, to the Holders of such Notes of all sums due and to become due thereon in respect of principal, premium, if any, and interest, but such money need not be segregated from other funds except to the extent required by law.

The Issuer shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the cash or non-callable Government Securities deposited pursuant to Section 8.04 hereof or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of the outstanding Notes.

Anything in this Article 8 to the contrary notwithstanding, the Trustee shall deliver or pay to the Issuer from time to time upon the request of the Issuer any money or non-callable Government Securities held by it as provided in Section 8.04 hereof which, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee (which may be the opinion delivered under Section 8.04(a) hereof), are in excess of the amount thereof that would then be required to be deposited to effect an equivalent Legal Defeasance or Covenant Defeasance.

SECTION 8.06. REPAYMENT TO ISSUER.

Any money deposited with the Trustee or any Paying Agent, or then held by the Issuer, in trust for the payment of the principal of, premium, if any, or interest on any Note and remaining unclaimed for two years after such principal, and premium, if any, or interest has become due and payable shall be paid to the Issuer on its request or (if then held by the Issuer) shall be discharged from such trust; and the Holder of such Note shall thereafter look only to the Issuer for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Issuer as trustee thereof, shall thereupon cease; PROVIDED, HOWEVER, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Issuer cause to be published once, in the New York Times and The Wall Street Journal (national edition), notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such notification or publication, any unclaimed balance of such money then remaining will be repaid to the Issuer.

SECTION 8.07. REINSTATEMENT.

If the Trustee or Paying Agent is unable to apply any United States dollars or non-callable Government Securities in accordance with Section 8.02 or 8.03 hereof, as the case may be, by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the Issuer's obligations under this Indenture and the Notes shall be revived and reinstated as though no deposit had occurred pursuant to Section 8.02 or 8.03 hereof until such time as the Trustee or Paying Agent is permitted to apply all such money in accordance with Section 8.02 or 8.03 hereof, as the case may be; PROVIDED, HOWEVER, that, if the Issuer makes any payment of principal of, premium, if any, or interest on any Note following the reinstatement of its obligations, the Issuer shall be subrogated to the rights of the Holders of such Notes to receive such payment from the money held by the Trustee or Paying Agent.

ARTICLE 9.
AMENDMENT, SUPPLEMENT AND WAIVER

SECTION 9.01. WITHOUT CONSENT OF HOLDERS OF NOTES.

Notwithstanding Section 9.02 of this Indenture, the Issuer and the Trustee may amend or supplement this Indenture, the Notes or the Pledge Agreement without the consent of any Holder of a Note:

- (a) to cure any ambiguity, defect or inconsistency;
- (b) to provide for uncertificated Notes in addition to or in place of certificated Notes or to alter the provisions of Article 2 hereof (including the related definitions) in a manner that does not materially adversely affect any Holder;
- (c) to provide for the assumption of the Issuer's Obligations to the Holders of Notes by a successor to the Issuer pursuant to Article 5 hereof;
- (d) to make any change that would provide any additional rights or benefits to the Holders of Notes (including the provision of any Liens for the benefit of Holders as contemplated by Section 4.12 hereof) or that does not adversely affect the legal rights under this Indenture of any such Holder;
- (e) to comply with requirements of the SEC in order to effect or maintain the qualification of this Indenture under the TIA; or
- (f) to provide for the issuance of Additional Notes in accordance with the limitations set forth in this Indenture.

Upon the request of the Issuer accompanied by a resolution of its Board of Directors authorizing the execution of any such amended or supplemental indenture, and upon receipt by the Trustee of the documents described in Section 7.02 hereof, the Trustee shall join with the Issuer in the execution of any amended or supplemental indenture or amendment to the Pledge Agreement authorized or permitted by the terms of this Indenture and to make any further appropriate agreements and stipulations that may be therein contained, but the Trustee shall not be obligated to enter into such amended or supplemental indenture that affects its own rights, duties or immunities under this Indenture or otherwise.

SECTION 9.02. WITH CONSENT OF HOLDERS OF NOTES.

Except as provided below in this Section 9.02, the Issuer and the Trustee may amend or supplement this Indenture (including Section 3.09, 4.10 and 4.15 hereof), the Notes and the Pledge Agreement with the consent of the Holders of at least a majority in principal amount of the Notes (including Additional Notes, if any) then outstanding voting as a single class (including consents obtained in connection with a tender offer or exchange offer for, or purchase of, the Notes), and, subject to Sections 6.04 and 6.07 hereof, any existing Default or Event of Default (other than a Default or Event of Default in the payment of the principal of, premium, if any, or interest on the Notes, except a payment default resulting from an acceleration that has been rescinded) or compliance with any provision of this Indenture, the Notes or the Pledge Agreement may be waived with the consent of the Holders of a majority in principal amount of the then outstanding Notes (including Additional Notes, if any) voting as a single class (including consents obtained in connection with a tender offer or exchange offer for, or purchase of, the Notes). Section 2.08 hereof shall determine which Notes are considered to be "outstanding" for purposes of this Section 9.02.

Upon the request of the Issuer accompanied by a resolution of its Board of Directors authorizing the execution of any such amended or supplemental indenture or amendment to the Pledge Agreement, and upon the filing with the Trustee of evidence satisfactory to the Trustee of the consent of the Holders of Notes as aforesaid, and upon receipt by the Trustee of the documents described in Section 7.02 hereof, the Trustee shall join with the Issuer in the execution of such amended or supplemental indenture or amendment to the Pledge Agreement unless such amended or supplemental indenture or amendment to the Pledge Agreement directly affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such amended or supplemental indenture or amendment to the Pledge Agreement.

It shall not be necessary for the consent of the Holders of Notes under this Section 9.02 to approve the particular form of any proposed amendment or waiver, but it shall be sufficient if such consent approves the substance thereof.

After an amendment, supplement or waiver under this Section becomes effective, the Issuer shall mail to the Holders of Notes affected thereby a notice briefly describing the amendment, supplement or waiver. Any failure of the Issuer to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such amended or supplemental indenture, amendment to the Pledge Agreement or waiver. Subject to Sections 6.04 and 6.07 hereof, the Holders of a majority in aggregate principal amount of the Notes (including Additional Notes, if any) then outstanding voting as a single class may waive compliance in a particular instance by the Issuer with any provision of this Indenture, the Notes or amendment to the Pledge Agreement. However, without the consent of each Holder affected, an amendment or waiver under this Section 9.02 may not (with respect to any Notes held by a non-consenting Holder):

- (a) reduce the principal amount of Notes whose Holders must consent to an amendment, supplement or waiver;
- (b) reduce the principal of or change the fixed maturity of any Note or alter the provisions with respect to the redemption of the Notes except as provided above with respect to Sections 4.10 and 4.15 hereof;
- (c) reduce the rate of or change the time for payment of interest on any Note;
- (d) waive a Default or Event of Default in the payment of principal of, or interest or premium, or Liquidated Damages, if any, on the Notes (except a rescission of acceleration of the Notes by the Holders of at least a majority in aggregate principal amount of the then outstanding Notes, including Additional Notes, if any, and a waiver of the payment default that resulted from such acceleration);
- (e) make any Note payable in money other than that stated in the Notes;
- (f) make any change in the provisions of this Indenture relating to waivers of past Defaults or the rights of Holders of Notes to receive payments of principal of, or interest or premium or Liquidated Damages, if any, on the Notes;
- (g) waive a redemption payment with respect to any Note (other than a payment required by Sections 4.10 or 4.15 hereof); or
- (h) make any change in Sections 6.04 or 6.07 hereof or in the foregoing amendment and waiver provisions.

SECTION 9.03. COMPLIANCE WITH TRUST INDENTURE ACT.

Every amendment or supplement to this Indenture or the Notes shall be set forth in a amended or supplemental indenture that complies with the TIA as then in effect.

SECTION 9.04. REVOCATION AND EFFECT OF CONSENTS.

Until an amendment, supplement or waiver becomes effective, a consent to it by a Holder of a Note is a continuing consent by the Holder of a Note and every subsequent Holder of a Note or portion of a Note that evidences the same debt as the consenting Holder's Note, even if notation of the consent is not made on any Note. However, any such Holder of a Note or subsequent Holder of a Note may revoke the consent as to its Note if the Trustee receives written notice of revocation before the date the waiver, supplement or amendment becomes effective. An amendment, supplement or waiver becomes effective in accordance with its terms and thereafter binds every Holder.

SECTION 9.05. NOTATION ON OR EXCHANGE OF NOTES.

The Trustee may place an appropriate notation about an amendment, supplement or waiver on any Note thereafter authenticated. The Issuer in exchange for all Notes may issue and the Trustee shall, upon receipt of an Authentication Order, authenticate new Notes that reflect the amendment, supplement or waiver.

Failure to make the appropriate notation or issue a new Note shall not affect the validity and effect of such amendment, supplement or waiver.

SECTION 9.06. TRUSTEE TO SIGN AMENDMENTS, ETC.

The Trustee shall sign any amended or supplemental indenture or amendment to the Pledge Agreement authorized pursuant to this Article 9 if the amendment or supplement does not adversely affect the rights, duties, liabilities or immunities of the Trustee. The Issuer may not sign an amendment or supplemental indenture or amendment to the Pledge Agreement until the Board of Directors approves it. In executing any amended or supplemental indenture or amendment to the Pledge Agreement, the Trustee shall be entitled to receive and (subject to Section 7.01 hereof) shall be fully protected in relying upon, in addition to the documents required by Section 12.04 hereof, an Officers' Certificate and an Opinion of Counsel stating that the execution of such amended or supplemental indenture or amendment to the Pledge Agreement is authorized or permitted by this Indenture and that such amendment or supplement is the legal, valid and binding obligation of the Issuer, enforceable against it in accordance with its terms, subject to customary exceptions, and complies with the provisions hereof (including Section 9.03).

ARTICLE 10. COLLATERAL AND SECURITY

SECTION 10.01. PLEDGE AGREEMENT.

The due and punctual payment of the principal of and interest and Liquidated Damages, if any, on the Notes when and as the same shall be due and payable, whether on an Interest Payment Date, at maturity, by acceleration, repurchase, redemption or otherwise, and interest on the overdue principal of and interest and Liquidated Damages (to the extent permitted by law), if any, on the Notes and performance of all other obligations of the Issuer to the Holders of Notes or the Trustee under this Indenture and the Notes, according to the terms hereunder or thereunder, are secured as provided in the Pledge Agreement which the Issuer has entered into simultaneously with the execution of this Indenture

and which is attached as Exhibit E hereto. Each Holder of Notes, by its acceptance thereof, consents and agrees to the terms of the Pledge Agreement (including, without limitation, the provisions providing for foreclosure and release of Collateral) as the same may be in effect or may be amended from time to time in accordance with its terms and authorizes and directs the Trustee to enter into the Pledge Agreement and to perform its obligations and exercise its rights thereunder as a Secured Party in accordance therewith. The Issuer will do or cause to be done all such acts and things as may be necessary or proper, or as may be required by the provisions of the Pledge Agreement, to assure and confirm to the Trustee the security interest in the Collateral contemplated hereby, by the Pledge Agreement or any part thereof, as from time to time constituted, so as to render the same available for the security and benefit of this Indenture and of the Notes secured hereby, according to the intent and purposes herein expressed. The Issuer will take, and will cause its Subsidiaries to take, upon request of the Trustee, any and all actions reasonably required to cause the Pledge Agreement to create and maintain, as security for the Obligations of the Issuer hereunder, a valid and enforceable perfected first priority Lien in and on all the Collateral, in favor of the Trustee, as Secured Party, for the benefit of the Holders of Notes, superior to and prior to the rights of all third Persons and subject to no other Liens than Permitted Liens.

SECTION 10.02. RECORDING AND OPINIONS.

(a) The Issuer will furnish to the Trustee on December 15 in each year beginning with December 15, 2002, an Opinion of Counsel, dated as of such date, either:

(i) (A) stating that, in the opinion of such counsel, action has been taken with respect to the recording, registering, filing, re-recording, re-registering and re-filing of all supplemental indentures, financing statements, continuation statements or other instruments of further assurance as is necessary to maintain the Lien of the Pledge Agreement and reciting with respect to the security interest in the Collateral the details of such action or referring to prior Opinions of Counsel in which such details are given, and (B) stating that, in the opinion of such counsel, based on relevant laws as in effect on the date of such Opinion of Counsel, all financing statements and continuation statements have been executed and filed that are necessary as of such date and during the succeeding 12 months fully to preserve and protect, to the extent such protection and preservation are possible by filing, the rights of the Holders of Notes and the Trustee hereunder and under the Pledge Agreement with respect to the security interest in the Collateral; or

(ii) stating that, in the opinion of such counsel, no such action is necessary to maintain such Lien and assignment.

(b) The Issuer will otherwise comply with the provisions of TIA ss.314(b).

SECTION 10.03. RELEASE OF COLLATERAL.

(a) Subject to subsections (b), (c) and (d) of this Section 10.03, Collateral may be released from the Lien and security interest created by the Pledge Agreement at any time or from time to time in accordance with the provisions of the Pledge Agreement or as provided hereby. In addition, upon the request of the Issuer pursuant to an Officers' Certificate certifying that all conditions precedent hereunder have been met and stating whether or not such release is in connection with an Asset Sale and (at the sole cost and expense of the Issuer) the Trustee will release Collateral that is sold, conveyed or disposed of in compliance with the provisions of this Indenture; PROVIDED, that if such sale, conveyance or disposition constitutes an Asset Sale, the Issuer will apply the Net Proceeds in accordance with Section 4.10 hereof. Upon receipt of such Officers' Certificate the Trustee shall execute, deliver or acknowledge any

necessary or proper instruments of termination, satisfaction or release to evidence the release of any Collateral permitted to be released pursuant to this Indenture or the Pledge Agreement.

(b) No Collateral may be released from the Lien and security interest created by the Pledge Agreement pursuant to the provisions of the Pledge Agreement unless the certificate required by this Section 10.03 has been delivered to the Trustee.

(c) At any time when a Default or Event of Default has occurred and is continuing and the maturity of the Notes has been accelerated (whether by declaration or otherwise), no release of Collateral pursuant to the provisions of the Pledge Agreement will be effective as against the Holders of Notes.

(d) The release of any Collateral from the terms of this Indenture and the Pledge Agreement will not be deemed to impair the security under this Indenture in contravention of the provisions hereof if and to the extent the Collateral is released pursuant to the terms of the Pledge Agreement and hereof. To the extent applicable, the Issuer will cause TIA ss. 313(b), relating to reports, and TIA ss. 314(d), relating to the release OF property or securities from the Lien and security interest of the Pledge Agreement and relating to the substitution therefor of any property or securities to be subjected to the Lien and security interest of the Pledge Agreement, to be complied with. Any certificate or opinion required by TIA ss. 314(d) may be made by aN Officer of the Issuer except in cases where TIA ss. 314(d) requires that such certificate or opinion be made by aN independent Person, which Person will be an independent engineer, appraiser or other expert selected or approved by the Trustee and the Collateral Agent in the exercise of reasonable care.

SECTION 10.04. CERTIFICATES OF THE ISSUER.

The Issuer will furnish to the Trustee, prior to each proposed release of Collateral pursuant to the Pledge Agreement:

(i) all documents required by TIAss.314(d); and

(ii) an Opinion of Counsel, which may be rendered by internal counsel to the Issuer, to the effect that such accompanying documents constitute all documents required by TIA ss.314(d).

The Trustee may, to the extent permitted by Sections 7.01 and 7.02 hereof, accept as conclusive evidence of compliance with the foregoing provisions the appropriate statements contained in such documents and such Opinion of Counsel.

SECTION 10.05. CERTIFICATES OF THE TRUSTEE.

In the event that the Issuer wishes to release Collateral in accordance with the Pledge Agreement and has delivered the certificates and documents required by the Pledge Agreement and Sections 10.03 and 10.04 hereof, the Trustee will determine whether it has received all documentation required by TIA ss. 314(d) in connection with such release.

SECTION 10.06. AUTHORIZATION OF ACTIONS TO BE TAKEN BY THE TRUSTEE UNDER THE PLEDGE AGREEMENT.

Subject to the provisions of Section 7.01 and 7.02 hereof, the Trustee may, in its sole discretion and without the consent of the Holders of Notes, take, on behalf of the Holders of Notes, all actions it deems necessary or appropriate in order to:

(iii) enforce any of the terms of the Pledge Agreement; and

(iv) collect and receive any and all amounts payable in respect of the Obligations of the Issuer hereunder.

The Trustee will have power to institute and maintain such suits and proceedings as it may deem expedient to prevent any impairment of the Collateral by any acts that may be unlawful or in violation of the Pledge Agreement or this Indenture, and such suits and proceedings as the Trustee may deem expedient to preserve or protect its interests and the interests of the Holders of Notes in the Collateral (including power to institute and maintain suits or proceedings to restrain the enforcement of or compliance with any legislative or other governmental enactment, rule or order that may be unconstitutional or otherwise invalid if the enforcement of, or compliance with, such enactment, rule or order would impair the security interest hereunder or be prejudicial to the interests of the Holders of Notes or of the Trustee).

SECTION 10.07. AUTHORIZATION OF RECEIPT OF FUNDS BY THE TRUSTEE UNDER THE PLEDGE AGREEMENT.

The Trustee is authorized to receive any funds for the benefit of the Holders of Notes distributed under the Pledge Agreement, and to make further distributions of such funds to the Holders of Notes according to the provisions of this Indenture.

SECTION 10.08. TERMINATION OF SECURITY INTEREST.

Upon the payment in full of all Obligations of the Issuer under this Indenture and the Notes, or upon Legal Defeasance, the Trustee will, at the request of the Issuer, release the Liens pursuant to this Indenture and the Pledge Agreement.

ARTICLE 11.

satisfaction and discharge

SECTION 11.01. SATISFACTION AND DISCHARGE.

This Indenture will be discharged and will cease to be of further effect as to all Notes issued hereunder, when:

(1) either:

(a) all Notes that have been authenticated (except lost, stolen or destroyed Notes that have been replaced or paid and Notes for whose payment money has theretofore been deposited in trust and thereafter repaid to the Issuer) have been delivered to the Trustee for cancellation; or

(b) all Notes that have not been delivered to the Trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and the Issuer has irrevocably deposited or caused to be deposited with the Trustee as trust funds in trust solely for the benefit of the Holders, cash in U.S. dollars, non-callable Government Securities, or a combination thereof, in such amounts as will be sufficient without consideration of any reinvestment of interest, to pay and discharge the entire indebtedness on the Notes not delivered to the Trustee for cancellation for principal, premium and Liquidated Damages, if any, and accrued interest to the date of maturity or redemption;

(2) no Default or Event of Default shall have occurred and be continuing on the date of such deposit or shall occur as a result of such deposit and such deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which the Issuer is a party or by which the Issuer is bound;

(3) the Issuer has paid or caused to be paid all sums payable by it under this Indenture; and

(4) the Issuer has delivered irrevocable instructions to the Trustee under this Indenture to apply the deposited money toward the payment of the Notes at maturity or the redemption date, as the case may be.

In addition, the Issuer must deliver an Officers' Certificate and an Opinion of Counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

Notwithstanding the satisfaction and discharge of this Indenture, if money shall have been deposited with the Trustee pursuant to subclause (b) of clause (1) of this Section, the provisions of Section 11.02 and Section 8.06 shall survive.

SECTION 11.02. APPLICATION OF TRUST MONEY.

Subject to the provisions of Section 8.06, all money deposited with the Trustee pursuant to Section 11.01 shall be held in trust and applied by it, in accordance with the provisions of the Notes and this Indenture, to the payment, either directly or through any Paying Agent (including the Issuer acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money has been deposited with the Trustee; but such money need not be segregated from other funds except to the extent required by law.

If the Trustee or Paying Agent is unable to apply any money or Government Securities in accordance with Section 11.01 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, the Issuer's obligations under this Indenture and the Notes shall be revived and reinstated as though no deposit had occurred pursuant to Section 11.01; PROVIDED that if the Issuer has made any payment of principal of, premium, if any, or interest on any Notes because of the reinstatement of its obligations, the Issuer shall be subrogated to the rights of the Holders of such Notes to receive such payment from the money or Government Securities held by the Trustee or Paying Agent.

ARTICLE 12. MISCELLANEOUS

SECTION 12.01. TRUST INDENTURE ACT CONTROLS.

If any provision of this Indenture limits, qualifies or conflicts with the duties imposed by TIA ss.318(c), the imposed duties shall control.

SECTION 12.02. NOTICES.

Any notice or communication by the Issuer or the Trustee to the other is duly given if in writing and delivered in Person or mailed by first class mail (registered or certified, return receipt requested), telex, telecopier or overnight air courier guaranteeing next day delivery, to the others' address:

If to the Issuer:

International Specialty Holdings Inc.

c/o ISP Management Company, Inc. 1361 Alps Road
Wayne, New Jersey 07470
Telecopier No.: (973) 628-3229 Attention: General Counsel

With a copy to:
Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, New York 10153
Telecopier No.: (212) 310-8007 Attention: Michael E. Lubowitz

If to the Trustee:

Wilmington Trust Company
Rodney Square North
1100 North Market Street
Wilmington, Delaware 19890
Telecopier No.: (302) 651-8882 Attention: Corporate Trust Division/ISP

With a copy to:
Winston & Strawn
200 Park Avenue
New York, New York 10166
Telecopier No.: (212) 294-4700 Attention: Jeffrey H. Elkin

The Issuer or the Trustee, by notice to the other may designate additional or different addresses for subsequent notices or communications.

All notices and communications (other than those sent to Holders) shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; five Business Days after being deposited in the mail, postage prepaid, if mailed (except that notices and communications to the Trustee shall be effective only upon receipt); when answered back, if telexed; when receipt acknowledged, if telecopied; and the next Business Day after timely delivery to the courier, if sent by overnight air courier guaranteeing next day delivery.

Any notice or communication to a Holder shall be mailed by first class mail, certified or registered, return receipt requested, or by overnight air courier guaranteeing next day delivery to its address shown on the register kept by the Registrar. Any notice or communication shall also be so mailed to any Person described in TIA ss. 313(c), to the extent required by the TIA. Failure to mail a notice or communication to a Holder or anY defect in it shall not affect its sufficiency with respect to other Holders.

If a notice or communication is mailed in the manner provided above within the time prescribed, it is duly given, whether or not the addressee receives it.

If the Issuer mails a notice or communication to Holders, it shall mail a copy to the Trustee and each Agent at the same time.

SECTION 12.03. COMMUNICATION BY HOLDERS OF NOTES WITH OTHER HOLDERS OF NOTES.

Holders may communicate pursuant to TIA ss. 312(b) with other Holders with respect to their rights under this Indenture or the Notes. The Issuer, the Trustee, the Registrar and anyone else shall have the protection of TIA ss. 312(c).

SECTION 12.04. CERTIFICATE AND OPINION AS TO CONDITIONS PRECEDENT.

Upon any request or application by the Issuer to the Trustee to take any action under this Indenture, the Issuer shall furnish to the Trustee:

(a) an Officers' Certificate in form and substance reasonably satisfactory to the Trustee (which shall include the statements set forth in Section 13.05 hereof) stating that, in the opinion of the signers, all conditions precedent and covenants, if any, provided for in this Indenture relating to the proposed action have been satisfied; and

(b) an Opinion of Counsel in form and substance reasonably satisfactory to the Trustee (which shall include the statements set forth in Section 13.05 hereof) stating that, in the opinion of such counsel, all such conditions precedent and covenants have been satisfied.

SECTION 12.05. STATEMENTS REQUIRED IN CERTIFICATE OR OPINION.

Each certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture (other than a certificate provided pursuant to TIA ss. 314(a)(4)) shall comply with the provisions of TIA ss. 314(e) and shall include:

(c) a statement that the Person making such certificate or opinion has read such covenant or condition;

(d) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(e) a statement that, in the opinion of such Person, he or she has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been satisfied; and

(f) a statement as to whether or not, in the opinion of such Person, such condition or covenant has been satisfied.

SECTION 12.06. RULES BY TRUSTEE AND AGENTS.

The Trustee may make reasonable rules for action by or at a meeting of Holders. The Registrar or Paying Agent may make reasonable rules and set reasonable requirements for its functions.

SECTION 12.07. NO PERSONAL LIABILITY OF DIRECTORS, OFFICERS, EMPLOYEES AND STOCKHOLDERS.

No past, present or future director, officer, employee, incorporator or stockholder of the Issuer, as such, shall have any liability for any obligations of the Issuer under the Notes this Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by

accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes.

SECTION 12.08. GOVERNING LAW.

THE INTERNAL LAW OF THE STATE OF NEW YORK SHALL GOVERN AND BE USED TO CONSTRUE THIS INDENTURE, THE NOTES AND THE NOTE GUARANTEES WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

SECTION 12.09. NO ADVERSE INTERPRETATION OF OTHER AGREEMENTS.

This Indenture may not be used to interpret any other indenture, loan or debt agreement of the Issuer or its Subsidiaries or of any other Person. Any such indenture, loan or debt agreement may not be used to interpret this Indenture.

SECTION 12.10. SUCCESSORS.

All agreements of the Issuer in this Indenture and the Notes shall bind its successors. All agreements of the Trustee in this Indenture shall bind its successors.

SECTION 12.11. SEVERABILITY.

In case any provision in this Indenture or in the Notes shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 12.12. COUNTERPART ORIGINALS.

The parties may sign any number of copies of this Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

SECTION 12.13. TABLE OF CONTENTS, HEADINGS, ETC.

The Table of Contents, Cross-Reference Table and Headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part of this Indenture and shall in no way modify or restrict any of the terms or provisions hereof.

[Signatures on following pages]

SIGNATURES

Dated as of December 13, 2001

ISSUER:

INTERNATIONAL SPECIALTY HOLDINGS INC.

By: /s/ Andrew J. Diamond

Name: Andrew J. Diamond

Title: Vice President and Assistant Treasurer

I-1

TRUSTEE:

WILMINGTON TRUST COMPANY

By: /s/ James D. Nesci

Name: James D. Nesci

Title: Authorized Signer

I-2

EXHIBIT A1

[Face of Note]

CUSIP/CINS _____

10 5/8% [Series A] [Series B] Senior Subordinated Notes due 2011

No. ____ \$ _____

INTERNATIONAL SPECIALTY HOLDINGS INC.

promises to pay to

or registered assigns,
the principal sum of

Dollars on December 15, 2009.

Interest Payment Dates: June 15 and December 15

Record Dates: June 1 and December 1

Dated: _____, _____

INTERNATIONAL SPECIALTY HOLDINGS INC.

By:

Name:

Title:

This is one of the Notes referred to
in the within-mentioned Indenture:

**WILMINGTON TRUST COMPANY,
as Trustee**

By:

Authorized Signatory

A1-1

10 5/8% [Series A] [Series B] Senior Secured Notes due 2009

**[INSERT THE GLOBAL NOTE LEGEND, IF APPLICABLE PURSUANT TO THE
PROVISIONS OF THE INDENTURE]**

**[INSERT THE PRIVATE PLACEMENT LEGEND, IF APPLICABLE PURSUANT TO THE
PROVISIONS OF THE INDENTURE]**

Capitalized terms used herein shall have the meanings assigned to them in the Indenture referred to below unless otherwise indicated.

1. **INTEREST.** International Specialty Holdings Inc., a Delaware corporation (the "Issuer"), promises to pay interest on the principal amount of this Note at 10 5/8% per annum until maturity and shall pay the Liquidated Damages payable pursuant to Section 5 of the Registration Rights Agreement referred to below. The Issuer shall pay interest and Liquidated Damages semi-annually in arrears on June 15 and December 15 of each year, or if any such day is not a Business Day, on the next succeeding Business Day (each, an "Interest Payment Date"). Interest on this Note will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the date of issuance; PROVIDED that if there is no existing Default in the payment of interest, and if this Note is authenticated between a record date referred to on the face hereof and the next succeeding Interest Payment Date, interest shall accrue from such next succeeding Interest Payment Date; PROVIDED, FURTHER, that the first Interest Payment Date shall be the first of June 15 and December 15 to occur after the date of issuance, unless such June 15 and December 15 occurs within one calendar month of such date of issuance, in which case the first Interest Payment Date shall be the second of June 15 and December 15 to occur after the date of issuance. The Issuer shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue principal and premium, if any, from time to time on demand at a rate that is 1% per annum in excess of the rate then in effect; they shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue installments of interest and Liquidated Damages (without regard to any applicable grace periods) from time to time on demand at the same rate to the extent lawful. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

2. **METHOD OF PAYMENT.** The Issuer will pay interest on the Notes (except defaulted interest) and Liquidated Damages to the Persons who are registered Holders of Notes at the close of business on the June 1 or December 1 next preceding the Interest Payment Date, even if such Notes are canceled after such record date and on or before such Interest Payment Date, except as provided in Section 2.12 of the Indenture with respect to defaulted interest. The Notes will be payable as to principal, premium and Liquidated Damages, if any, and interest at the office or agency of the Issuer maintained for such purpose or, at the option of the Issuer, payment of interest and Liquidated Damages may be made by check mailed to the Holders at their addresses set forth in the register of Holders; PROVIDED that payment by wire transfer of immediately available funds will be required with respect to principal of and interest, premium and Liquidated Damages on, all Global Notes and all other Notes the Holders of which shall have provided wire transfer instructions to the Issuer or the Paying Agent. Such payment shall be in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

3. **PAYING AGENT AND REGISTRAR.** Initially, Wilmington Trust Company, the Trustee under the Indenture, will act as Paying Agent and Registrar. The Issuer may change any Paying Agent or Registrar without notice to any Holder. The Issuer or any of its Subsidiaries may act in any such capacity.

4. **INDENTURE.** The Issuer issued the Notes under an Indenture dated as of December 13, 2001 (as amended from time to time, the "Indenture") between the Issuer and the Trustee. The terms of the

Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended (15 U.S. Code ss.ss. 77aaa-77bbb). The Notes are subject to all such terms, and Holders ARE referred to the Indenture and such Act for a statement of such terms. To the extent any provision of this Note conflicts with the express provisions of the Indenture, the provisions of the Indenture shall govern and be controlling. The Notes are obligations of the Issuer unlimited in aggregate principal amount.

5. OPTIONAL REDEMPTION.

(a) Except as set forth in clause (b) of this Paragraph 5, the Issuer shall not have the option to redeem the Notes pursuant to this Paragraph 5 prior to December 15, 2005. Thereafter, the Issuer may redeem all or a part of the notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest and Liquidated Damages, if any, on the notes redeemed, to the applicable redemption date, if redeemed during the twelve-month period beginning on December 15 of the years indicated below:

YEAR	PERCENTAGE
----	-----
2005.....	105.313%
2006.....	103.542%
2007.....	101.771%
2008 and thereafter.....	100.000%

(b) Notwithstanding the provisions of clause (a) of this Paragraph 5, at any time prior to December 15, 2004, the Issuer may on any one or more occasions redeem up to 35% of the aggregate principal amount of notes originally issued under the Indenture at a redemption price of 110.625% of the principal amount, plus accrued and unpaid interest and Liquidated Damages, if any, to the redemption date, with the net cash proceeds of one or more Equity Offerings; PROVIDED that (1) at least 65% of the aggregate principal amount of Notes originally issued under the Indenture remains outstanding immediately after the occurrence of such redemption (excluding notes held by the Issuer and its Affiliates); and (2) notice of the redemption is given within 30 days of the date of the closing of such Equity Offering.

6. MANDATORY REDEMPTION.

Except as set forth in paragraph 7 below, the Issuer shall not be required to make mandatory redemption or sinking fund payments with respect to the Notes.

7. REPURCHASE AT OPTION HOLDER.

(a) Upon the occurrence of a Change of Control, the Issuer shall be required to make an offer (a "Change of Control Offer") to each Holder to repurchase all or any part (equal to \$1,000 or an integral multiple thereof) of each Holder's Notes (other than Notes previously called for redemption) at a purchase price equal to 101% of the aggregate principal amount thereof plus accrued and unpaid interest and Liquidated Damages thereon, if any, on the Notes repurchased to the date of purchase (the "Change of Control Payment"). Within 30 days following any Change of Control, the Issuer shall mail a notice to each Holder setting forth the procedures governing the Change of Control Offer as required by the Indenture.

(b) Any net proceeds from Asset Sales that are not applied as provided in the Indenture will constitute "Asset Sales Proceeds." When the aggregate amount of Asset Sale Proceeds exceeds the Threshold Amount, the Issuer will make an Asset Sale Offer to all Holders of Notes and all holders of

other Indebtedness that is pari passu with the Notes containing provisions similar to those set forth in this Indenture with respect to offers to purchase or redeem with the proceeds of sales of assets to purchase the maximum principal amount of Notes and such other pari passu Indebtedness that may be purchased out of the excess of such Asset Sale Proceeds over the Threshold Amount (such excess being referred to herein as the "EXCESS PROCEEDS"); PROVIDED, HOWEVER, that (i) the Issuer will not be obligated to make an Asset Sale Offer until the aggregate amount of Excess Proceeds exceeds \$5.0 million and (ii) Net Proceeds received by a Restricted Subsidiary that is subject to a contractual restriction on its ability to dividend such Net Proceeds to the Issuer will not constitute Excess Proceeds for so long as such restriction would either prohibit such dividend or reduce the amount of other dividends payable to the Issuer. The offer price in any Asset Sale Offer will be equal to 100% of the principal amount thereof plus accrued and unpaid interest and Liquidated Damages thereon, if any, to the date fixed for the closing of such offer, in accordance with the procedures set forth in the Indenture and will be payable in cash. To the extent that the aggregate amount of Notes (including any Additional Notes) tendered pursuant to an Asset Sale Offer is less than the Excess Proceeds, the Issuer (or such Restricted Subsidiary) may use such deficiency for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes surrendered by Holders thereof exceeds the amount of Excess Proceeds, the Trustee will select the Notes to be purchased on a PRO RATA basis. Holders of Notes that are the subject of an offer to purchase will receive an Asset Sale Offer from the Issuer prior to any related purchase date and may elect to have such Notes purchased by completing the form entitled "Option of Holder to Elect Purchase" on the reverse of the Notes.

8. NOTICE OF REDEMPTION. Notice of redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each Holder whose Notes are to be redeemed at its registered address. Notes in denominations larger than \$1,000 may be redeemed in part but only in whole multiples of \$1,000, unless all of the Notes held by a Holder are to be redeemed. On and after the redemption date interest and Liquidated Damages, if any ceases to accrue on Notes or portions thereof called for redemption.

9. DENOMINATIONS, TRANSFER, EXCHANGE. The Notes are in registered form without coupons in denominations of \$1,000 and integral multiples of \$1,000. The transfer of Notes may be registered and Notes may be exchanged as provided in the Indenture. The Registrar and the Trustee may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and the Issuer may require a Holder to pay any taxes and fees required by law or permitted by the Indenture. The Issuer need not exchange or register the transfer of any Note or portion of a Note selected for redemption, except for the unredeemed portion of any Note being redeemed in part. Also, the Issuer need not exchange or register the transfer of any Notes during a period beginning at the opening of business 15 days before the day of a selection of Notes to be redeemed and ending at the close of business on the day of selection or during the period between a record date and the next succeeding Interest Payment Date.

10. PERSONS DEEMED OWNERS. The registered Holder of a Note may be treated as its owner for all purposes.

11. AMENDMENT, SUPPLEMENT AND WAIVER. Subject to certain exceptions, the Indenture, the Pledge Agreement or the Notes may be amended or supplemented with the consent of the Holders of at least a majority in principal amount of the then outstanding Notes and Additional Notes, if any, voting as a single class, and any existing default or compliance with any provision of the Indenture, the Pledge Agreement or the Notes may be waived with the consent of the Holders of a majority in principal amount of the then outstanding Notes and Additional Notes, if any, voting as a single class. Without the consent of any Holder of a Note, the Indenture, the Pledge Agreement or the Notes may be amended or supplemented to cure any ambiguity, defect or inconsistency, to provide for uncertificated Notes in addition to or in place of certificated Notes, to provide for the assumption of the Issuer's obligations to

Holders of the Notes in case of a merger or consolidation, to make any change that would provide any additional rights or benefits to the Holders of the Notes or that does not adversely affect the legal rights under the Indenture of any such Holder, to comply with the requirements of the SEC in order to effect or maintain the qualification of the Indenture under the Trust Indenture Act, or to provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture.

12. **DEFAULTS AND REMEDIES.** Events of Default include: (i) default for 30 days in the payment when due of interest or Liquidated Damages on the Notes; (ii) default in payment when due of principal of or premium, if any, on the Notes; (iii) failure by the Issuer to comply with Section 4.10, 4.15 or 5.01 of the Indenture (unless such provisions are not at the time applicable pursuant to Section 4.18 of the Indenture); (iv) failure for 30 days by the Issuer to comply with Section 4.07 or 4.09 of the Indenture (unless such provisions are not at the time applicable pursuant to Section 4.18 of the Indenture); (v) failure by the Issuer for 60 days after notice to the Issuer by the Trustee or the Holders of at least 25% in principal amount of the Notes (including Additional Notes, if any) then outstanding voting as a single class to comply with certain other agreements in the Indenture or the Pledge Agreement (except as provided in (x) below); (vi) default under certain other agreements relating to Indebtedness of the Issuer which default results in the acceleration of such Indebtedness prior to its express maturity; (vii) certain final judgments for the payment of money that remain undischarged for a period of 60 days; (viii) the Issuer shall fail to place the amount contemplated in the Escrow Agreement into the Escrow Account on December 13, 2001; or ISP shall fail to retire the 2003 Notes on or prior to maturity (ix) certain events of bankruptcy or insolvency with respect to the Issuer or any of its Restricted Subsidiaries; and (x) (a) the repudiation by the Issuer of its obligations under the Pledge Agreement or (b) the unenforceability of the Pledge Agreement with respect to the validity, priority or perfection of the lien created thereby (whether through the unenforceability of the Pledge Agreement or otherwise). If any Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the then outstanding Notes may declare all the Notes to be due and payable. Notwithstanding the foregoing, in the case of an Event of Default arising from certain events of bankruptcy or insolvency, all outstanding Notes will become due and payable without further action or notice. Holders may not enforce the Indenture or the Notes except as provided in the Indenture. Subject to certain limitations, Holders of a majority in principal amount of the then outstanding Notes may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders of the Notes notice of any continuing Default or Event of Default (except a Default or Event of Default relating to the payment of principal or interest) if it determines that withholding notice is in their interest. The Holders of a majority in aggregate principal amount of the Notes then outstanding by notice to the Trustee may on behalf of the Holders of all of the Notes waive any existing Default or Event of Default and its consequences under the Indenture except a continuing Default or Event of Default in the payment of interest on, or the principal of, the Notes. The Issuer is required to deliver to the Trustee annually a statement regarding compliance with the Indenture, and the Issuer is required upon becoming aware of any Default or Event of Default, to deliver to the Trustee a statement specifying such Default or Event of Default.

13. **TRUSTEE DEALINGS WITH ISSUER.** The Trustee, in its individual or any other capacity, may become the owner or pledgee of Notes, and may otherwise deal with the Issuer or their Affiliates, as if it were not the Trustee. However, in the event that the Trustee acquires any conflicting interest it must eliminate such conflict within 90 days, apply to the SEC for permission to continue as trustee or resign.

14. **NO RECOURSE AGAINST OTHERS.** No past, present or future director, officer, employee, incorporator or stockholder of the Issuer, as such, shall have any liability for any obligations of the Issuer under the Notes or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes.

15. AUTHENTICATION. This Note shall not be valid until authenticated by the manual signature of the Trustee or an authenticating agent.

16. ABBREVIATIONS. Customary abbreviations may be used in the name of a Holder or an assignee, such as: TEN COM (= tenants in common), TEN ENT (= tenants by the entireties), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian), and U/G/M/A (= Uniform Gifts to Minors Act).

17. ADDITIONAL RIGHTS OF HOLDERS OF RESTRICTED GLOBAL NOTES AND RESTRICTED DEFINITIVE NOTES. In addition to the rights provided to Holders of Notes under the Indenture, Holders of Restricted Global Notes and Restricted Definitive Notes shall have all the rights set forth in the A/B Exchange Registration Rights Agreement dated as of December 13, 2001, between the Issuer and the other parties named on the signature pages thereof or, in the case of Additional Notes, Holders of Restricted Global Notes and Restricted Definitive Notes shall have the rights set forth in one or more registration rights agreements, if any, among the Issuer and the other parties thereto, relating to rights given by the Issuer to the purchasers of any Additional Notes (collectively, the "Registration Rights Agreement").

18. CUSIP NUMBERS. Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures, the Issuer have caused CUSIP numbers to be printed on the Notes and the Trustee may use CUSIP numbers in notices of redemption as a convenience to Holders. No representation is made as to the accuracy of such numbers either as printed on the Notes or as contained in any notice of redemption and reliance may be placed only on the other identification numbers placed thereon.

The Issuer will furnish to any Holder upon written request and without charge a copy of the Indenture and/or the Registration Rights Agreement. Requests may be made to:

International Specialty Holdings Inc.
c/o ISP Management Company, Inc.
1361 Alps Road
Wayne, New Jersey 07470
Attention: General Counsel

ASSIGNMENT FORM

To assign this Note, fill in the form below:

(I) or (we) assign and transfer this Note to:

(Insert assignee's legal name)

(Insert assignee's soc. sec. or tax I.D. no.)

(Print or type assignee's name, address and zip code)

and irrevocably appoint
to transfer this Note on the books of the Issuer. The agent may substitute another to act for him.

Date: _____

Your Signature:

(Sign exactly as your name appears on the face of this Note)

Signature Guarantee*: _____

* Participant in a recognized Signature Guarantee Medallion Program (or other signature guarantor acceptable to the Trustee).

OPTION OF HOLDER TO ELECT PURCHASE

If you want to elect to have this Note purchased by the Issuer pursuant to Section 4.10 or 4.15 of the Indenture, check the appropriate box below:

Section 4.10 Section 4.15

If you want to elect to have only part of the Note purchased by the Issuer pursuant to Section 4.10 or Section 4.15 of the Indenture, state the amount you elect to have purchased:

\$ _____

Date: _____

Your Signature:

(Sign exactly as your name appears on the face of this Note)

Tax Identification No.:

Signature Guarantee*: _____

* Participant in a recognized Signature Guarantee Medallion Program (or other signature guarantor acceptable to the Trustee).

SCHEDULE OF EXCHANGES OF INTERESTS IN THE GLOBAL NOTE*

The following exchanges of a part of this Global Note for an interest in another Global Note or for a Definitive Note, or exchanges of a part of another Global Note or Definitive Note for an interest in this Global Note, have been made:

Date of Exchange -----	Amount of decrease in Principal Amount of this Global Note -----	Amount of increase in Principal Amount of this Global Note -----	Principal Amount of this Global Note following such decrease (or Increase) -----	Signature of authorized officer of Trustee or Custodian -----
---------------------------	--	---	---	---

* THIS SCHEDULE SHOULD BE INCLUDED ONLY IF THE NOTE IS ISSUED IN GLOBAL FORM.

EXHIBIT A2

[Face of Regulation S Temporary Global Note]

CUSIP/CINS _____

10 5/8% [Series A] [Series B] Senior Secured Notes due 2009

No. ____ \$ _____

INTERNATIONAL SPECIALTY HOLDINGS INC.

promises to pay to _____

or registered assigns,

the principal sum of

Dollars on December 15, 2009.

Interest Payment Dates: June 15 and December 15

Record Dates: June 1 and December 1

Dated: _____, _____

INTERNATIONAL SPECIALTY HOLDINGS INC.

By:

Name:

Title:

This is one of the Notes referred to
in the within-mentioned Indenture:

**WILMINGTON TRUST COMPANY,
as Trustee**

By:

Authorized Signatory

A2-1

G-I_EPA0014705

THE RIGHTS ATTACHING TO THIS REGULATION S TEMPORARY GLOBAL NOTE, AND THE CONDITIONS AND PROCEDURES GOVERNING ITS EXCHANGE FOR CERTIFICATED NOTES, ARE AS SPECIFIED IN THE INDENTURE (AS DEFINED HEREIN). NEITHER THE HOLDER NOR THE BENEFICIAL OWNERS OF THIS REGULATION S TEMPORARY GLOBAL NOTE SHALL BE ENTITLED TO RECEIVE PAYMENT OF INTEREST HEREON.

UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR NOTES IN DEFINITIVE FORM, THIS NOTE MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY OR BY THE DEPOSITARY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITARY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITARY. UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY (55 WATER STREET, NEW YORK, NEW YORK) ("DTC"), TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS MAY BE REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR SUCH OTHER ENTITY AS MAY BE REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

THE SECURITY (OR ITS PREDECESSOR) EVIDENCED HEREBY WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER SECTION 5 OF THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THE SECURITY EVIDENCED HEREBY MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THE SECURITY EVIDENCED HEREBY IS HEREBY NOTIFIED THAT THE SELLER MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER. THE HOLDER OF THE SECURITY EVIDENCED HEREBY AGREES FOR THE BENEFIT OF THE ISSUER THAT (A) SUCH SECURITY MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) (a) IN THE UNITED STATES TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (b) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 UNDER THE SECURITIES ACT, (c) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144 UNDER THE SECURITIES ACT, (d) TO AN INSTITUTIONAL "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501 (a)(1), (2), (3) OR (7) OF THE SECURITIES ACT (AN "INSTITUTIONAL ACCREDITED INVESTOR")) THAT, PRIOR TO SUCH TRANSFER, FURNISHES THE REGISTRAR A SIGNED LETTER CONTAINING CERTAIN REPRESENTATIONS AND AGREEMENTS (THE FORM OF WHICH CAN BE OBTAINED FROM THE REGISTRAR) AND, IF SUCH TRANSFER IS IN RESPECT OF AN AGGREGATE PRINCIPAL AMOUNT OF NOTES LESS THAN \$250,000, AN OPINION

OF COUNSEL ACCEPTABLE TO THE ISSUER THAT SUCH TRANSFER IS IN COMPLIANCE WITH THE SECURITIES ACT OR (e) IN ACCORDANCE WITH ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (AND BASED UPON AN OPINION OF COUNSEL IF THE ISSUER SO REQUEST), (2) TO THE ISSUER OR (3) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT AND, IN EACH CASE, IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE SECURITY EVIDENCED HEREBY OF THE RESALE RESTRICTIONS SET FORTH IN (A) ABOVE.

Capitalized terms used herein shall have the meanings assigned to them in the Indenture referred to below unless otherwise indicated.

1. INTEREST. International Specialty Holdings Inc., a Delaware corporation (the "Issuer"), promises to pay interest on the principal amount of this Note at 10 5/8% per annum until maturity and shall pay the Liquidated Damages payable pursuant to Section 5 of the Registration Rights Agreement referred to below. The Issuer shall pay interest and Liquidated Damages semi-annually in arrears on June 15 and December 15 of each year, or if any such day is not a Business Day, on the next succeeding Business Day (each, an "Interest Payment Date"). Interest on this Note will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the date of issuance; PROVIDED that if there is no existing Default in the payment of interest, and if this Note is authenticated between a record date referred to on the face hereof and the next succeeding Interest Payment Date, interest shall accrue from such next succeeding Interest Payment Date; PROVIDED, FURTHER, that the first Interest Payment Date shall be the first of June 15 and December 15 to occur after the date of issuance, unless such June 15 and December 15 occurs within one calendar month of such date of issuance, in which case the first Interest Payment Date shall be the second of June 15 and December 15 to occur after the date of issuance. The Issuer shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue principal and premium, if any, from time to time on demand at a rate that is 1% per annum in excess of the rate then in effect; they shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue installments of interest and Liquidated Damages (without regard to any applicable grace periods) from time to time on demand at the same rate to the extent lawful. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

Until this Regulation S Temporary Global Note is exchanged for one or more Regulation S Permanent Global Notes, the Holder hereof shall not be entitled to receive payments of interest hereon; until so exchanged in full, this Regulation S Temporary Global Note shall in all other respects be entitled to the same benefits as other Notes under the Indenture.

2. METHOD OF PAYMENT. The Issuer will pay interest on the Notes (except defaulted interest) and Liquidated Damages to the Persons who are registered Holders of Notes at the close of business on the June 1 or December 1 next preceding the Interest Payment Date, even if such Notes are canceled after such record date and on or before such Interest Payment Date, except as provided in Section 2.12 of the Indenture with respect to defaulted interest. The Notes will be payable as to principal, premium and Liquidated Damages, if any, and interest at the office or agency of the Issuer maintained for such purpose or, at the option of the Issuer, payment of interest and Liquidated Damages may be made by check mailed to the Holders at their addresses set forth in the register of Holders; PROVIDED that payment by wire transfer of immediately available funds will be required with respect to principal of and interest, premium and Liquidated Damages on, all Global Notes and all other Notes the Holders of which shall have provided wire transfer instructions to the Issuer or the Paying Agent. Such payment shall be in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

3. PAYING AGENT AND REGISTRAR. Initially, Wilmington Trust Company, the Trustee under the Indenture, will act as Paying Agent and Registrar. The Issuer may change any Paying Agent or Registrar without notice to any Holder. The Issuer or any of its Subsidiaries may act in any such capacity.

4. INDENTURE. The Issuer issued the Notes under an Indenture dated as of December 13, 2001 (as amended from time to time, the "Indenture") between the Issuer and the Trustee. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended (15 U.S. Code ss.ss. 77aaa-77bbbb). The Notes are subject to all such terms, and Holders ARE referred to the Indenture and such Act for a statement of such terms. To the extent any provision of this Note conflicts with the express provisions of the Indenture, the provisions of the Indenture shall govern and be controlling. The Notes are obligations of the Issuer unlimited in aggregate principal amount.

5. OPTIONAL REDEMPTION.

(c) (a) Except as set forth in clause (b) of this Paragraph 5, the Issuer shall not have the option to redeem the Notes pursuant to this Paragraph 5 prior to December 15, 2005. Thereafter, the Issuer may redeem all or a part of the notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest and Liquidated Damages, if any, on the notes redeemed, to the applicable redemption date, if redeemed during the twelve-month period beginning on December 15 of the years indicated below:

YEAR	PERCENTAGE
----	-----
2005.....	105.313%
2006.....	103.542%
2007.....	101.771%
2008 and thereafter.....	100.000%

(b) Notwithstanding the provisions of clause (a) of this Paragraph 5, at any time prior to December 15, 2004, the Issuer may on any one or more occasions redeem up to 35% of the aggregate principal amount of notes originally issued under the Indenture at a redemption price of 110.625% of the principal amount, plus accrued and unpaid interest and Liquidated Damages, if any, to the redemption date, with the net cash proceeds of one or more Equity Offerings; PROVIDED that (1) at least 65% of the aggregate principal amount of Notes originally issued under the Indenture remains outstanding immediately after the occurrence of such redemption (excluding notes held by the Issuer and its Affiliates); and (2) notice of the redemption is given within 30 days of the date of the closing of such Equity Offering.

6. MANDATORY REDEMPTION.

Except as set forth in paragraph 7 below, the Issuer shall not be required to make mandatory redemption or sinking fund payments with respect to the Notes.

7. REPURCHASE AT OPTION OF HOLDER.

(a) Upon the occurrence of a Change of Control, the Issuer shall be required to make an offer (a "Change of Control Offer") to each Holder to repurchase all or any part (equal to \$1,000 or an integral multiple thereof) of each Holder's Notes (other than Notes previously called for redemption) at a purchase price equal to 101% of the aggregate principal amount thereof plus accrued and unpaid interest and Liquidated Damages thereon, if any, on the Notes repurchased to the date of purchase (the "Change of Control Payment"). Within 30 days following any Change of Control, the Issuer shall mail a notice to

each Holder setting forth the procedures governing the Change of Control Offer as required by the Indenture.

(b) Any net proceeds from Asset Sales that are not applied as provided in the Indenture will constitute "Asset Sale Proceeds." When the aggregate amount of Asset Sale Proceeds exceeds the Threshold Amount, the Issuer will make an Asset Sale Offer to all Holders of Notes and all holders of other Indebtedness that is pari passu with the Notes containing provisions similar to those set forth in this Indenture with respect to offers to purchase or redeem with the proceeds of sales of assets to purchase the maximum principal amount of Notes and such other pari passu Indebtedness that may be purchased out of the excess of such Asset Sale Proceeds over the Threshold Amount (such excess being referred to herein as the "EXCESS PROCEEDS"); PROVIDED, HOWEVER, that (i) the Issuer will not be obligated to make an Asset Sale Offer until the aggregate amount of Excess Proceeds exceeds \$5.0 million and (ii) Net Proceeds received by a Restricted Subsidiary that is subject to a contractual restriction on its ability to dividend such Net Proceeds to the Issuer will not constitute Excess Proceeds for so long as such restriction would either prohibit such dividend or reduce the amount of other dividends payable to the Issuer. The offer price in any Asset Sale Offer will be equal to 100% of the principal amount thereof plus accrued and unpaid interest and Liquidated Damages thereon, if any, to the date fixed for the closing of such offer, in accordance with the procedures set forth in the Indenture and will be payable in cash. To the extent that the aggregate amount of Notes (including any Additional Notes) tendered pursuant to an Asset Sale Offer is less than the Excess Proceeds, the Issuer (or such Restricted Subsidiary) may use such deficiency for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes surrendered by Holders thereof exceeds the amount of Excess Proceeds, the Trustee will select the Notes to be purchased on a PRO RATA basis. Holders of Notes that are the subject of an offer to purchase will receive an Asset Sale Offer from the Issuer prior to any related purchase date and may elect to have such Notes purchased by completing the form entitled "Option of Holder to Elect Purchase" on the reverse of the Notes.

8. NOTICE OF REDEMPTION. Notice of redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each Holder whose Notes are to be redeemed at its registered address. Notes in denominations larger than \$1,000 may be redeemed in part but only in whole multiples of \$1,000, unless all of the Notes held by a Holder are to be redeemed. On and after the redemption date interest and Liquidated Damages, if any, ceases to accrue on Notes or portions thereof called for redemption.

9. DENOMINATIONS, TRANSFER, EXCHANGE. The Notes are in registered form without coupons in denominations of \$1,000 and integral multiples of \$1,000. The transfer of Notes may be registered and Notes may be exchanged as provided in the Indenture. The Registrar and the Trustee may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and the Issuer may require a Holder to pay any taxes and fees required by law or permitted by the Indenture. The Issuer need not exchange or register the transfer of any Note or portion of a Note selected for redemption, except for the unredeemed portion of any Note being redeemed in part. Also, the Issuer need not exchange or register the transfer of any Notes during a period beginning at the opening of business 15 days before the day of a selection of Notes to be redeemed and ending at the close of business on the day of selection or during the period between a record date and the next succeeding Interest Payment Date.

This Regulation S Temporary Global Note is exchangeable in whole or in part for one or more Global Notes only (i) on or after the termination of the 40-day restricted period (as defined in Regulation S) and (ii) upon presentation of certificates (accompanied by an Opinion of Counsel, if applicable) required by Article 2 of the Indenture. Upon exchange of this Regulation S Temporary Global Note for one or more Global Notes, the Trustee shall cancel this Regulation S Temporary Global Note.

10. PERSONS DEEMED OWNERS. The registered Holder of a Note may be treated as its owner for all purposes.

11. AMENDMENT, SUPPLEMENT AND WAIVER. Subject to certain exceptions, the Indenture, the Pledge Agreement or the Notes may be amended or supplemented with the consent of the Holders of at least a majority in principal amount of the then outstanding Notes and Additional Notes, if any, voting as a single class, and any existing default or compliance with any provision of the Indenture, the Pledge Agreement or the Notes may be waived with the consent of the Holders of a majority in principal amount of the then outstanding Notes and Additional Notes, if any, voting as a single class. Without the consent of any Holder of a Note, the Indenture, the Pledge Agreement or the Notes may be amended or supplemented to cure any ambiguity, defect or inconsistency, to provide for uncertificated Notes in addition to or in place of certificated Notes, to provide for the assumption of the Issuer's obligations to Holders of the Notes in case of a merger or consolidation, to make any change that would provide any additional rights or benefits to the Holders of the Notes or that does not adversely affect the legal rights under the Indenture of any such Holder, to comply with the requirements of the SEC in order to effect or maintain the qualification of the Indenture under the Trust Indenture Act, or to provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture.

12. DEFAULTS AND REMEDIES. Events of Default include: (i) default for 30 days in the payment when due of interest or Liquidated Damages on the Notes; (ii) default in payment when due of principal of or premium, if any, on the Notes; (iii) failure by the Issuer to comply with Section 4.10, 4.15 or 5.01 of the Indenture (unless such provisions are not at the time applicable pursuant to Section 4.18 of the Indenture); (iv) failure for 30 days by the Issuer to comply with Section 4.07 or 4.09 of the Indenture (unless such provisions are not at the time applicable pursuant to Section 4.18 of the Indenture); (v) failure by the Issuer for 60 days after notice to the Issuer by the Trustee or the Holders of at least 25% in principal amount of the Notes (including Additional Notes, if any) then outstanding voting as a single class to comply with certain other agreements in the Indenture or the Pledge Agreement (except as provided in (x) below); (vi) default under certain other agreements relating to Indebtedness of the Issuer which default results in the acceleration of such Indebtedness prior to its express maturity; (vii) certain final judgments for the payment of money that remain undischarged for a period of 60 days; (viii) the Issuer shall fail to place the amount contemplated in the Escrow Agreement into the Escrow Account on December 13, 2001; or ISP shall fail to retire the 2003 Notes on or prior to maturity (ix) certain events of bankruptcy or insolvency with respect to the Issuer or any of its Restricted Subsidiaries; and (x) (a) the repudiation by the Issuer of its obligations under the Pledge Agreement or (b) the unenforceability of the Pledge Agreement with respect to the validity, priority or perfection of the lien created thereby (whether through the unenforceability of the Pledge Agreement or otherwise). If any Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the then outstanding Notes may declare all the Notes to be due and payable. Notwithstanding the foregoing, in the case of an Event of Default arising from certain events of bankruptcy or insolvency, all outstanding Notes will become due and payable without further action or notice. Holders may not enforce the Indenture or the Notes except as provided in the Indenture. Subject to certain limitations, Holders of a majority in principal amount of the then outstanding Notes may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders of the Notes notice of any continuing Default or Event of Default (except a Default or Event of Default relating to the payment of principal or interest) if it determines that withholding notice is in their interest. The Holders of a majority in aggregate principal amount of the Notes then outstanding by notice to the Trustee may on behalf of the Holders of all of the Notes waive any existing Default or Event of Default and its consequences under the Indenture except a continuing Default or Event of Default in the payment of interest on, or the principal of, the Notes. The Issuer is required to deliver to the Trustee annually a statement regarding compliance with the Indenture, and the Issuer is required upon becoming aware of any Default or Event of Default, to deliver to the Trustee a statement specifying such Default or Event of Default.

13. **TRUSTEE DEALINGS WITH ISSUER.** The Trustee, in its individual or any other capacity, may become the owner or pledgee of the Notes and may otherwise deal with the Issuer or their Affiliates, as if it were not the Trustee. However, in the event that the Trustee acquires any conflicting interest it must eliminate such conflict within 90 days, apply to the SEC for permission to continue as trustee or resign.

14. **NO RECOURSE AGAINST OTHERS.** No past, present or future director, officer, employee, incorporator or stockholder of the Issuer, as such, shall have any liability for any obligations of the Issuer under the Notes or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes.

15. **AUTHENTICATION.** This Note shall not be valid until authenticated by the manual signature of the Trustee or an authenticating agent.

16. **ABBREVIATIONS.** Customary abbreviations may be used in the name of a Holder or an assignee, such as: TEN COM (= tenants in common), TEN ENT (= tenants by the entireties), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian), and U/G/M/A (= Uniform Gifts to Minors Act).

17. **ADDITIONAL RIGHTS OF HOLDERS OF RESTRICTED GLOBAL NOTES AND RESTRICTED DEFINITIVE NOTES.** In addition to the rights provided to Holders of Notes under the Indenture, Holders of Restricted Global Notes and Restricted Definitive Notes shall have all the rights set forth in the A/B Exchange Registration Rights Agreement dated as of December 13, 2001, between the Issuer and the other parties named on the signature pages thereof or, in the case of Additional Notes, Holders of Restricted Global Notes and Restricted Definitive Notes shall have the rights set forth in one or more registration rights agreements, if any, among the Issuer and the other parties thereto, relating to rights given by the Issuer to the purchasers of any Additional Notes (collectively, the "Registration Rights Agreement").

18. **CUSIP NUMBERS.** Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures, the Issuer have caused CUSIP numbers to be printed on the Notes and the Trustee may use CUSIP numbers in notices of redemption as a convenience to Holders. No representation is made as to the accuracy of such numbers either as printed on the Notes or as contained in any notice of redemption and reliance may be placed only on the other identification numbers placed thereon.

The Issuer will furnish to any Holder upon written request and without charge a copy of the Indenture and/or the Registration Rights Agreement. Requests may be made to:

International Specialty Holdings Inc.
c/o ISP Management Company, Inc.
1361 Alps Road
Wayne, New Jersey 07470
Attention: General Counsel

ASSIGNMENT FORM

To assign this Note, fill in the form below:

(I) or (we) assign and transfer this Note to:

(Insert assignee's legal name)

(Insert assignee's soc. sec. or tax I.D. no.)

(Print or type assignee's name, address and zip code)

and irrevocably appoint
to transfer this Note on the books of the Issuer. The agent may substitute another to act for him.

Date: _____

Your Signature:

(Sign exactly as your name appears on the face of this Note)

Signature Guarantee*: _____

* Participant in a recognized Signature Guarantee Medallion Program (or other signature guarantor acceptable to the Trustee).

OPTION OF HOLDER TO ELECT PURCHASE

If you want to elect to have this Note purchased by the Issuer pursuant to Section 4.10 or 4.15 of the Indenture, check the appropriate box below:

Section 4.10 Section 4.15

If you want to elect to have only part of the Note purchased by the Issuer pursuant to Section 4.10 or Section 4.15 of the Indenture, state the amount you elect to have purchased:

\$-----

Date: _____

Your Signature:

(Sign exactly as your name appears on the face of this Note)

Tax Identification No.:

Signature Guarantee*: _____

* Participant in a recognized Signature Guarantee Medallion Program (or other signature guarantor acceptable to the Trustee).

SCHEDULE OF EXCHANGES OF REGULATION S TEMPORARY GLOBAL NOTE

The following exchanges of a part of this Regulation S Temporary Global Note for an interest in another Global Note, or of other Restricted Global Notes for an interest in this Regulation S Temporary Global Note, have been made:

Date of Exchange	Amount of decrease in Principal Amount of this Global Note	Amount of increase in Principal Amount of this Global Note	Principal Amount of this Global Note following such decrease (or Increase)	Signature of authorized officer of Trustee or Custodian
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EXHIBIT B
FORM OF CERTIFICATE OF TRANSFER

International Specialty Holdings Inc.
c/o ISP Management Company, Inc.
1361 Alps Road
Wayne, New Jersey 07470
Attention: General Counsel

Wilmington Trust Company
Rodney Square North
1100 North Market Street
Wilmington, Delaware 19890

Attention: Corporate Trust Division

Re: 10 5/8% [SERIES A] [SERIES B] SENIOR SECURED NOTES DUE 2009

Reference is hereby made to the Indenture, dated as of December 13, 2001 (as amended from time to time, the "INDENTURE"), between International Specialty Holdings Inc., as issuer (the "ISSUER") and Wilmington Trust Company, as trustee. Capitalized terms used but not defined herein shall have the meanings given to them in the Indenture.

_____, (the "TRANSFEROR") owns and proposes to transfer the Note[s] or interest in such Note[s] specified in Annex A hereto, in the principal amount of \$_____ in such Note[s] or interests (the "TRANSFER"), to _____ (the "TRANSFeree"), as further specified in Annex A hereto. In connection with the Transfer, the Transferor hereby certifies that:

[CHECK ALL THAT APPLY]

1. ☐ CHECK IF TRANSFEREE WILL TAKE DELIVERY OF A BENEFICIAL INTEREST IN THE 144A GLOBAL NOTE OR A DEFINITIVE NOTE PURSUANT TO RULE 144A. The Transfer is being effected pursuant to and in accordance with Rule 144A under the United States Securities Act of 1933, as amended (the "SECURITIES ACT"), and, accordingly, the Transferor hereby further certifies that the beneficial interest or Definitive Note is being transferred to a Person that the Transferor reasonably believed and believes is purchasing the beneficial interest or Definitive Note for its own account, or for one or more accounts with respect to which such Person exercises sole investment discretion, and such Person and each such account is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and such Transfer is in compliance with any applicable blue sky securities laws of any state of the United States. Upon consummation of the proposed Transfer in accordance with the terms of the Indenture, the transferred beneficial interest or Definitive Note will be subject to the restrictions on transfer enumerated in the Private Placement Legend printed on the 144A Global Note and/or the Definitive Note and in the Indenture and the Securities Act.

2. ☐ CHECK IF TRANSFEREE WILL TAKE DELIVERY OF A BENEFICIAL INTEREST IN THE TEMPORARY REGULATION S GLOBAL NOTE, THE REGULATION S GLOBAL NOTE OR A DEFINITIVE NOTE PURSUANT TO REGULATION S. The Transfer is being effected pursuant to and in accordance with Rule 903 or Rule 904 under the Securities Act and, accordingly, the Transferor hereby further certifies that (i) the Transfer is not being made to a Person in the United States and (x) at the time the buy order was originated, the Transferee was outside the United States or such Transferor and any Person acting on its behalf reasonably believed and believes that the Transferee was outside the United States or (y) the transaction was executed in, on or through the facilities of a designated offshore securities market and neither such Transferor nor any Person acting on its behalf knows that the transaction was prearranged with a buyer in

the United States, (ii) no directed selling efforts have been made in contravention of the requirements of Rule 903(b) or Rule 904(b) of Regulation S under the Securities Act, (iii) the transaction is not part of a plan or scheme to evade the registration requirements of the Securities Act and (iv) if the proposed transfer is being made prior to the expiration of the Restricted Period, the transfer is not being made to a U.S. Person or for the account or benefit of a U.S. Person (other than an Initial Purchaser). Upon consummation of the proposed transfer in accordance with the terms of the Indenture, the transferred beneficial interest or Definitive Note will be subject to the restrictions on Transfer enumerated in the Private Placement Legend printed on the Regulation S Global Note, the Temporary Regulation S Global Note and/or the Definitive Note and in the Indenture and the Securities Act.

3. ☐ CHECK AND COMPLETE IF TRANSFEREE WILL TAKE DELIVERY OF A BENEFICIAL INTEREST IN THE IAI GLOBAL NOTE OR A DEFINITIVE NOTE PURSUANT TO ANY PROVISION OF THE SECURITIES ACT OTHER THAN RULE 144A OR REGULATION S. The Transfer is being effected in compliance with the transfer restrictions applicable to beneficial interests in Restricted Global Notes and Restricted Definitive Notes and pursuant to and in accordance with the Securities Act and any applicable blue sky securities laws of any state of the United States, and accordingly the Transferor hereby further certifies that (check one):

(a) ☐ such Transfer is being effected pursuant to and in accordance with Rule 144 under the Securities Act;

or

(b) ☐ such Transfer is being effected to the Issuer or a subsidiary thereof;

or

(c) ☐ such Transfer is being effected pursuant to an effective registration statement under the Securities Act and in compliance with the prospectus delivery requirements of the Securities Act;

or

(d) ☐ such Transfer is being effected to an Institutional Accredited Investor and pursuant to an exemption from the registration requirements of the Securities Act other than Rule 144A, Rule 144 or Rule 904, and the Transferor hereby further certifies that it has not engaged in any general solicitation within the meaning of Regulation D under the Securities Act and the Transfer complies with the transfer restrictions applicable to beneficial interests in a Restricted Global Note or Restricted Definitive Notes and the requirements of the exemption claimed, which certification is supported by (1) a certificate executed by the Transferee in the form of Exhibit D to the Indenture and (2) if such Transfer is in respect of a principal amount of Notes at the time of transfer of less than \$250,000, an Opinion of Counsel provided by the Transferor or the Transferee (a copy of which the Transferor has attached to this certification), to the effect that such Transfer is in compliance with the Securities Act. Upon consummation of the proposed transfer in accordance with the terms of the Indenture, the transferred beneficial interest or Definitive Note will be subject to the restrictions on transfer enumerated in the Private Placement Legend printed on the IAI Global Note and/or the Definitive Notes and in the Indenture and the Securities Act.

4. ☐ CHECK IF TRANSFEREE WILL TAKE DELIVERY OF A BENEFICIAL INTEREST IN AN UNRESTRICTED GLOBAL NOTE OR OF AN UNRESTRICTED DEFINITIVE NOTE.

(a) [] CHECK IF TRANSFER IS PURSUANT TO RULE 144. (i) The Transfer is being effected pursuant to and in accordance with Rule 144 under the Securities Act and in compliance with the transfer restrictions contained in the Indenture and any applicable blue sky securities laws of any state of the United States and (ii) the restrictions on transfer contained in the Indenture and the Private Placement Legend are not required in order to maintain compliance with the Securities Act. Upon consummation of the proposed Transfer in accordance with the terms of the Indenture, the transferred beneficial interest or Definitive Note will no longer be subject to the restrictions on transfer enumerated in the Private Placement Legend printed on the Restricted Global Notes, on Restricted Definitive Notes and in the Indenture.

(b) [] CHECK IF TRANSFER IS PURSUANT TO REGULATION S. (i) The Transfer is being effected pursuant to and in accordance with Rule 903 or Rule 904 under the Securities Act and in compliance with the transfer restrictions contained in the Indenture and any applicable blue sky securities laws of any state of the United States and (ii) the restrictions on transfer contained in the Indenture and the Private Placement Legend are not required in order to maintain compliance with the Securities Act. Upon consummation of the proposed Transfer in accordance with the terms of the Indenture, the transferred beneficial interest or Definitive Note will no longer be subject to the restrictions on transfer enumerated in the Private Placement Legend printed on the Restricted Global Notes, on Restricted Definitive Notes and in the Indenture.

(c) [] CHECK IF TRANSFER IS PURSUANT TO OTHER EXEMPTION. (i) The Transfer is being effected pursuant to and in compliance with an exemption from the registration requirements of the Securities Act other than Rule 144, Rule 903 or Rule 904 and in compliance with the transfer restrictions contained in the Indenture and any applicable blue sky securities laws of any State of the United States and (ii) the restrictions on transfer contained in the Indenture and the Private Placement Legend are not required in order to maintain compliance with the Securities Act. Upon consummation of the proposed Transfer in accordance with the terms of the Indenture, the transferred beneficial interest or Definitive Note will not be subject to the restrictions on transfer enumerated in the Private Placement Legend printed on the Restricted Global Notes or Restricted Definitive Notes and in the Indenture.

This certificate and the statements contained herein are made for your benefit and the benefit of the Issuer.

[Insert Name of Transferor]

By:
Name:

Title:

Dated: _____

ANNEX A TO CERTIFICATE OF TRANSFER

1. The Transferor owns and proposes to transfer the following:

[CHECK ONE OF (a) OR (b)]

(a) a beneficial interest in the:

(i) ☐ 144A Global Note (CUSIP _____), or

(ii) ☐ Regulation S Global Note (CUSIP _____), or

(iii) ☐ IAI Global Note (CUSIP _____); or

(b) ☐ a Restricted Definitive Note.

2. After the Transfer the Transferee will hold:

[CHECK ONE]

(a) a beneficial interest in the:

(i) ☐ 144A Global Note (CUSIP _____), or

(ii) ☐ Regulation S Global Note (CUSIP _____), or

(iii) ☐ IAI Global Note (CUSIP _____); or

(iv) Unrestricted Global Note (CUSIP _____); or

(b) ☐ a Restricted Definitive Note; or

(c) ☐ an Unrestricted Definitive Note,

in accordance with the terms of the Indenture.

EXHIBIT C

FORM OF CERTIFICATE OF EXCHANGE

International Specialty Holdings Inc.
c/o ISP Management Company, Inc.
1361 Alps Road
Wayne, New Jersey 07470
Attention: General Counsel

Wilmington Trust Company
Rodney Square North
1100 North Market Street
Wilmington, Delaware 19890

Attention: Corporate Trust Division

Re: 10 5/8% SENIOR SECURED NOTES DUE 2009

(CUSIP _____)

Reference is hereby made to the Indenture, dated as of December 13, 2001 (as amended from time to time, the "INDENTURE"), between International Specialty Holdings Inc., as issuer (the "ISSUER") and Wilmington Trust Company, as trustee. Capitalized terms used but not defined herein shall have the meanings given to them in the Indenture.

_____, (the "OWNER") owns and proposes to exchange the Note[s] or interest in such Note[s] specified herein, in the principal amount of \$ _____ in such Note[s] or interests (the "EXCHANGE"). In connection with the Exchange, the Owner hereby certifies that:

1. EXCHANGE OF RESTRICTED DEFINITIVE NOTES OR BENEFICIAL INTERESTS IN A RESTRICTED GLOBAL NOTE FOR UNRESTRICTED DEFINITIVE NOTES OR BENEFICIAL INTERESTS IN AN UNRESTRICTED GLOBAL NOTE

(a) ☐ CHECK IF EXCHANGE IS FROM BENEFICIAL INTEREST IN A RESTRICTED GLOBAL NOTE TO BENEFICIAL INTEREST IN AN UNRESTRICTED GLOBAL NOTE. In connection with the Exchange of the Owner's beneficial interest in a Restricted Global Note for a beneficial interest in an Unrestricted Global Note in an equal principal amount, the Owner hereby certifies (i) the beneficial interest is being acquired for the Owner's own account without transfer, (ii) such Exchange has been effected in compliance with the transfer restrictions applicable to the Global Notes and pursuant to and in accordance with the United States Securities Act of 1933, as amended (the "SECURITIES ACT"), (iii) the restrictions on transfer contained in the Indenture and the Private Placement Legend are not required in order to maintain compliance with the Securities Act and (iv) the beneficial interest in an Unrestricted Global Note is being acquired in compliance with any applicable blue sky securities laws of any state of the United States.

(b) ☐ CHECK IF EXCHANGE IS FROM BENEFICIAL INTEREST IN A RESTRICTED GLOBAL NOTE TO UNRESTRICTED DEFINITIVE NOTE. In connection with the Exchange of the Owner's beneficial interest in a Restricted Global Note for an Unrestricted Definitive Note, the Owner hereby certifies (i) the Definitive Note is being acquired for the Owner's own account without transfer, (ii) such Exchange has been effected in compliance with the transfer restrictions applicable to the Restricted Global Notes and pursuant to and in accordance with the Securities Act, (iii) the restrictions on transfer contained in the Indenture and the Private Placement Legend are not required in order to maintain compliance with the

Securities Act and (iv) the Definitive Note is being acquired in compliance with any applicable blue sky securities laws of any state of the United States.

(c) ☐ CHECK IF EXCHANGE IS FROM RESTRICTED DEFINITIVE NOTE TO BENEFICIAL INTEREST IN AN UNRESTRICTED GLOBAL NOTE. In connection with the Owner's Exchange of a Restricted Definitive Note for a beneficial interest in an Unrestricted Global Note, the Owner hereby certifies (i) the beneficial interest is being acquired for the Owner's own account without transfer, (ii) such Exchange has been effected in compliance with the transfer restrictions applicable to Restricted Definitive Notes and pursuant to and in accordance with the Securities Act, (iii) the restrictions on transfer contained in the Indenture and the Private Placement Legend are not required in order to maintain compliance with the Securities Act and (iv) the beneficial interest is being acquired in compliance with any applicable blue sky securities laws of any state of the United States.

(d) ☐ CHECK IF EXCHANGE IS FROM RESTRICTED DEFINITIVE NOTE TO UNRESTRICTED DEFINITIVE NOTE. In connection with the Owner's Exchange of a Restricted Definitive Note for an Unrestricted Definitive Note, the Owner hereby certifies (i) the Unrestricted Definitive Note is being acquired for the Owner's own account without transfer, (ii) such Exchange has been effected in compliance with the transfer restrictions applicable to Restricted Definitive Notes and pursuant to and in accordance with the Securities Act, (iii) the restrictions on transfer contained in the Indenture and the Private Placement Legend are not required in order to maintain compliance with the Securities Act and (iv) the Unrestricted Definitive Note is being acquired in compliance with any applicable blue sky securities laws of any state of the United States.

2. EXCHANGE OF RESTRICTED DEFINITIVE NOTES OR BENEFICIAL INTERESTS IN RESTRICTED GLOBAL NOTES FOR RESTRICTED DEFINITIVE NOTES OR BENEFICIAL INTERESTS IN RESTRICTED GLOBAL NOTES

(a) ☐ CHECK IF EXCHANGE IS FROM BENEFICIAL INTEREST IN A RESTRICTED GLOBAL NOTE TO RESTRICTED DEFINITIVE NOTE. In connection with the Exchange of the Owner's beneficial interest in a Restricted Global Note for a Restricted Definitive Note with an equal principal amount, the Owner hereby certifies that the Restricted Definitive Note is being acquired for the Owner's own account without transfer. Upon consummation of the proposed Exchange in accordance with the terms of the Indenture, the Restricted Definitive Note issued will continue to be subject to the restrictions on transfer enumerated in the Private Placement Legend printed on the Restricted Definitive Note and in the Indenture and the Securities Act.

(b) ☐ CHECK IF EXCHANGE IS FROM RESTRICTED DEFINITIVE NOTE TO BENEFICIAL INTEREST IN A RESTRICTED GLOBAL NOTE. In connection with the Exchange of the Owner's Restricted Definitive Note for a beneficial interest in the [CHECK ONE] 144A Global Note, Regulation S Global Note, IAI Global Note with an equal principal amount, the Owner hereby certifies (i) the beneficial interest is being acquired for the Owner's own account without transfer and (ii) such Exchange has been effected in compliance with the transfer restrictions applicable to the Restricted Global Notes and pursuant to and in accordance with the Securities Act, and in compliance with any applicable blue sky securities laws of any state of the United States. Upon consummation of the proposed Exchange in accordance with the terms of the Indenture, the beneficial interest issued will be subject to the restrictions on transfer enumerated in the Private Placement Legend printed on the relevant Restricted Global Note and in the Indenture and the Securities Act.

This certificate and the statements contained herein are made for your benefit and the benefit of the Issuer.

[Insert Name of Transferor]

By:
Name:

Title:

Dated: _____

C-3

**FORM OF CERTIFICATE FROM
ACQUIRING INSTITUTIONAL ACCREDITED INVESTOR**

International Specialty Holdings Inc.
c/o ISP Management Company, Inc.
1361 Alps Road
Wayne, New Jersey 07470
Attention: General Counsel

Wilmington Trust Company
Rodney Square North
1100 North Market Street
Wilmington, Delaware 19890
Attention: Corporate Trust Division

Re: 10 5/8% SENIOR SECURED NOTES DUE 2009

Reference is hereby made to the Indenture, dated as of December 13, 2001 (as amended from time to time, the "INDENTURE"), between International Specialty Holdings Inc., as issuer (the "ISSUER") and Wilmington Trust Company, as trustee. Capitalized terms used but not defined herein shall have the meanings given to them in the Indenture

In connection with our proposed purchase of \$_____ aggregate principal amount of:

(a) ☐ a beneficial interest in a Global Note, or

(b) ☐ a Definitive Note,

we confirm that:

1. We understand that any subsequent transfer of the Notes or any interest therein is subject to certain restrictions and conditions set forth in the Indenture and the undersigned agrees to be bound by, and not to resell, pledge or otherwise transfer the Notes or any interest therein except in compliance with, such restrictions and conditions and the United States Securities Act of 1933, as amended (the "SECURITIES ACT").

2. We understand that the offer and sale of the Notes have not been registered under the Securities Act, and that the Notes and any interest therein may not be offered or sold except as permitted in the following sentence. We agree, on our own behalf and on behalf of any accounts for which we are acting as hereinafter stated, that if we should sell the Notes or any interest therein, we will do so only (A) to the Issuer or any subsidiary thereof, (B) in accordance with Rule 144A under the Securities Act to a "qualified institutional buyer" (as defined therein), (C) to an institutional "accredited investor" (as defined below) that, prior to such transfer, furnishes (or has furnished on its behalf by a U.S. broker-dealer) to you and to the Issuer a signed letter substantially in the form of this letter and, if such transfer is in respect of a principal amount of Notes, at the time of transfer of less than \$250,000, an Opinion of Counsel in form reasonably acceptable to the Issuer to the effect that such transfer is in compliance with the Securities Act, (D) outside the United States in accordance with Rule 904 of Regulation S under the Securities Act, (E) pursuant to the provisions of Rule 144(k) under the Securities Act or (F) pursuant to an effective registration statement under the Securities Act, and we further agree to provide to any Person purchasing

the Definitive Note or beneficial interest in a Global Note from us in a transaction meeting the requirements of clauses (A) through (E) of this paragraph a notice advising such purchaser that resales thereof are restricted as stated herein.

3. We understand that, on any proposed resale of the Notes or beneficial interest therein, we will be required to furnish to you and the Issuer such certifications, legal opinions and other information as you and the Issuer may reasonably require to confirm that the proposed sale complies with the foregoing restrictions. We further understand that the Notes purchased by us will bear a legend to the foregoing effect.
4. We are an institutional "accredited investor" (as defined in Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act) and have such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of our investment in the Notes, and we and any accounts for which we are acting are each able to bear the economic risk of our or its investment.
5. We are acquiring the Notes or beneficial interest therein purchased by us for our own account or for one or more accounts (each of which is an institutional "accredited investor") as to each of which we exercise sole investment discretion.

You and the Issuer are entitled to rely upon this letter and are irrevocably authorized to produce this letter or a copy hereof to any interested party in any administrative or legal proceedings or official inquiry with respect to the matters covered hereby.

[Insert Name of Accredited Investor]

By:
Name:

Title:

Dated: _____

**A/B EXCHANGE
REGISTRATION RIGHTS AGREEMENT**

**DATED AS OF DECEMBER 13, 2001
BY AND AMONG**

INTERNATIONAL SPECIALTY HOLDINGS INC.,

AS ISSUER

AND

**BEAR, STEARNS & CO. INC.
UBS WARBURG LLC,**

AS INITIAL PURCHASERS

The Registration Rights Agreement (this "AGREEMENT") is made and entered into as of December 13, 2001, by and among International Specialty Holdings Inc., a Delaware corporation (the "COMPANY" and the "ISSUER"), and Bear, Stearns & Co. Inc. and UBS Warburg LLC (each an "INITIAL PURCHASER" and, collectively, the "INITIAL PURCHASERS"), each of which has agreed to purchase the Issuer's 105/8% Series A Senior Secured Notes Due 2009 (the "SERIES A NOTES").

This Agreement is made pursuant to the Purchase Agreement, dated December 7, 2001, (the "PURCHASE AGREEMENT"), by and among the Issuer and the Initial Purchasers. In order to induce the Initial Purchasers to purchase the Series A Notes, the Issuer has agreed to provide the registration rights set forth in this Agreement. The execution and delivery of this Agreement is a condition to the obligations of the Initial Purchasers set forth in Section 8 of the Purchase Agreement. Capitalized terms used herein and not otherwise defined shall have the meaning assigned to them the Indenture, dated December 13, 2001, between the Issuer and Wilmington Trust Company, as Trustee, relating to the Series A Notes and the Series B Notes (the "INDENTURE").

The parties hereby agree as follows:

SECTION 1. DEFINITIONS

As used in this Agreement, the following capitalized terms shall have the following meanings:

ACT: The Securities Act of 1933, as amended.

AFFILIATE: As defined in Rule 144 of the Act.

BROKER-DEALER: Any broker or dealer registered under the Exchange Act.

CERTIFICATED SECURITIES: Definitive Notes, as defined in the Indenture.

CLOSING DATE: The date hereof.

COMMISSION: The Securities and Exchange Commission.

CONSUMMATE: An Exchange Offer shall be deemed "Consummated" for purposes of this Agreement upon the occurrence of (a) the filing and effectiveness under the Act of the Exchange Offer Registration Statement relating to the Series B Notes to be issued in the Exchange Offer, (b) the maintenance of such Exchange Offer Registration Statement continuously effective and the keeping of the Exchange Offer open for a period not less than the period required pursuant to Section 3(b) hereof and (c) the delivery by the Issuer to the Registrar under the Indenture of Series B Notes in the same aggregate principal amount as the aggregate principal amount of Series A Notes tendered by Holders thereof pursuant to the Exchange Offer.

CONSUMMATION DEADLINE: As defined in Section 3(b) hereof.

EFFECTIVENESS DEADLINE: As defined in Section 3(a)(y) and 4(a) hereof.

EXCHANGE ACT: The Securities Exchange Act of 1934, as amended.

EXCHANGE OFFER: The exchange and issuance by the Issuer of a principal amount of Series B Notes (which shall be registered pursuant to the Exchange Offer Registration Statement) equal to the outstanding principal amount of Series A Notes that are tendered by such Holders in connection with such exchange and issuance.

EXCHANGE OFFER REGISTRATION STATEMENT: The Registration Statement relating to the Exchange Offer, including the related Prospectus.

EXEMPT RESALES: The transactions in which the Initial Purchasers propose to sell the Series A Notes to certain "qualified institutional buyers," as such term is defined in Rule 144A under the Act and pursuant to Regulation S under the Act.

FILING DEADLINE: As defined in Sections 3(a) and 4(a)(x) hereof.

HOLDERS: As defined in Section 2 hereof.

PROSPECTUS: The prospectus included in a Registration Statement at the time such Registration Statement is declared effective, as amended or supplemented by any prospectus supplement and by all other amendments thereto, including post-effective amendments, and all material incorporated by reference into such Prospectus.

RECOMMENCEMENT DATE: As defined in Section 6(d) hereof.

REGISTRATION DEFAULT: As defined in Section 5 hereof.

REGISTRATION STATEMENT: Any registration statement of the Issuer and the Guarantors relating to (a) an offering of Series B Notes pursuant to an Exchange Offer or (b) the registration for resale of Transfer Restricted Securities pursuant to the Shelf Registration Statement, in each case, (i) that is filed pursuant to the provisions of this Agreement and (ii) including the Prospectus included therein, all amendments and supplements thereto (including post-effective amendments) and all exhibits and material incorporated by reference therein.

REGULATION S: Regulation S promulgated under the Act.

RULE 144: Rule 144 promulgated under the Act.

SERIES B NOTES: The Issuer's 105/8% Series B Senior Secured Notes due 2009 to be issued pursuant to the Indenture in the Exchange Offer.

SHELF REGISTRATION STATEMENT: As defined in Section 4 hereof.

SUSPENSION NOTICE: As defined in Section 6(d) hereof.

TIA: The Trust Indenture Act of 1939 (15 U.S.C. Section 77aaa-77bbbb) as in effect on the date of the Indenture.

TRANSFER RESTRICTED SECURITIES: Each (A) Series A Note, until the earliest to occur of (i) the date on which such Series A Note is exchanged in the Exchange Offer for a Series B Note which is entitled to be resold to the public by the Holder thereof without complying with the prospectus delivery requirements of the Act, (ii) the date on which such Series A Note has been disposed of in accordance with a Shelf Registration Statement (and the purchasers thereof have been issued Series B Notes), or (iii) the date on which such Series A Note is distributed to the public pursuant to Rule 144 under the Act and each (B) Series B Note held by a Broker Dealer until the date on which such Series B Note is disposed of by a Broker-Dealer pursuant to the "Plan of Distribution" contemplated by the Exchange Offer Registration Statement (including the delivery of the Prospectus contained therein).

SECTION 2. HOLDERS

A Person is deemed to be a holder of Transfer Restricted Securities (each, a "HOLDER") whenever such Person owns Transfer Restricted Securities.

SECTION 3. REGISTERED EXCHANGE OFFER

(a) Unless the Exchange Offer shall not be permitted by applicable federal law (after the procedures set forth in Section 6(a)(i) below have been complied with), the Issuer shall (i) cause the Exchange Offer Registration Statement to be filed with the Commission as soon as practicable after the Closing Date, but in no event later than 90 days after the Closing Date (such 90th day being the "FILING DEADLINE"), (ii) use its best efforts to cause such Exchange Offer Registration Statement to become effective at the earliest possible time, but in no event later than 180 days after the Closing Date (such 180th day being the "EFFECTIVENESS DEADLINE"), (iii) in connection with the foregoing, (A) file all pre-effective amendments to such Exchange Offer Registration Statement as may be necessary in order to cause it to become effective, (B) file, if applicable, a post-effective amendment to such Exchange Offer Registration Statement pursuant to Rule 430A under the Act and (C) cause all necessary filings, if any, in connection with the registration and qualification of the Series B Notes to be made under the Blue Sky laws of such jurisdictions as are necessary to permit Consummation of the Exchange Offer, and (iv) upon the effectiveness of such Exchange Offer Registration Statement, commence and Consummate the Exchange Offer. The Exchange Offer shall be on the appropriate form permitting (i) registration of the Series B Notes to be offered in exchange for the Series A Notes that are Transfer Restricted Securities and (ii) resales of Series B Notes by Broker-Dealers that tendered into the Exchange Offer Series A Notes that such Broker-Dealer acquired for its own account as a result of market-making activities or other trading activities (other than Series A Notes acquired directly from the Issuer or any of its Affiliates) as contemplated by Section 3(c) below.

(b) The Issuer shall use its best efforts to cause the Exchange Offer Registration Statement to be effective continuously, and shall keep the Exchange Offer open for a period of not less than the minimum period required under applicable federal and state securities laws to Consummate the Exchange Offer; PROVIDED, HOWEVER, that in no event shall such period be less than 20 business days. The Issuer shall cause the Exchange Offer to comply with all applicable federal and state securities laws. No securities other than the Series B Notes shall be included in the Exchange Offer Registration Statement. The Issuer shall use its best efforts to cause the Exchange Offer to be Consummated on the earliest practicable date after the Exchange Offer

Registration Statement has become effective, but in no event later than 30 business days thereafter (such 30th day being the "CONSUMMATION DEADLINE").

(c) The Issuer shall include a "Plan of Distribution" section in the Prospectus contained in the Exchange Offer Registration Statement and indicate therein that any Broker-Dealer who holds Transfer Restricted Securities that were acquired for the account of such Broker-Dealer as a result of market-making activities or other trading activities (other than Series A Notes acquired directly from the Issuer or any Affiliate of the Issuer), may exchange such Transfer Restricted Securities pursuant to the Exchange Offer. Such "Plan of Distribution" section shall also contain all other information with respect to such sales by such Broker-Dealers that the Commission may require in order to permit such sales pursuant thereto, but such "Plan of Distribution" shall not name any such Broker-Dealer or disclose the amount of Transfer Restricted Securities held by any such Broker-Dealer, except to the extent required by the Commission as a result of a change in policy, rules or regulations after the date of this Agreement. See the SHEARMAN & STERLING no-action letter (available July 2, 1993).

Because such Broker-Dealer may be deemed to be an "underwriter" within the meaning of the Act and must, therefore, deliver a prospectus meeting the requirements of the Act in connection with its initial sale of any Series B Notes received by such Broker-Dealer in the Exchange Offer, the Issuer shall permit the use of the Prospectus contained in the Exchange Offer Registration Statement by such Broker-Dealer to satisfy such prospectus delivery requirement. To the extent necessary to ensure that the prospectus contained in the Exchange Offer Registration Statement is available for sales of Series B Notes by Broker-Dealers, the Issuer agrees to use its best efforts to keep the Exchange Offer Registration Statement continuously effective, supplemented, amended and current as required by and subject to the provisions of Section 6(a) and Section

6 (c) hereof and in conformity with the requirements of this Agreement, the Act and the policies, rules and regulations of the Commission as announced from time to time, for a period of one year from the Consummation Deadline or such shorter period as will terminate when all Transfer Restricted Securities covered by such Registration Statement have been sold pursuant thereto. The Issuer shall provide sufficient copies of the latest version of such Prospectus to such Broker-Dealers, promptly upon request, and in no event later than one day after such request, at any time during such period.

SECTION 4. SHELF REGISTRATION

(a) SHELF REGISTRATION. If (i) the Issuer is not (A) required to file the Exchange Offer Registration Statement or (B) permitted to consummate the Exchange Offer because the Exchange Offer is not permitted by applicable law or Commission policy (after the Issuer has complied with the procedures set forth in Section 6(a)(i) below) or (ii) if any Holder of Transfer Restricted Securities shall notify the Issuer within 20 business days following the Consummation of the Exchange Offer that (A) such Holder was prohibited by law or Commission policy from participating in the Exchange Offer or (B) such Holder may not resell the Series B Notes acquired by it in the Exchange Offer to the public without delivering a prospectus and the Prospectus contained in the Exchange Offer Registration Statement is not appropriate or available for such resales by such Holder or (C) such Holder is a Broker-Dealer and holds Series A Notes acquired directly from the Issuer or any of their Affiliates, then the Issuer shall:

(x) cause to be filed, on or prior to 30 days after the earlier of (i) the date on which the Company determines that the Exchange Offer Registration Statement cannot be filed as a result of clause (a)(i) above and (ii) the date on which the Company receives the notice specified in clause (a)(ii) above, (such earlier date, the "FILING DEADLINE"), a shelf registration statement pursuant to Rule 415 under the Act (which may be an amendment to the Exchange Offer Registration Statement) (the "SHELF REGISTRATION STATEMENT"), relating to all Transfer Restricted Securities, and

(y) shall use its best efforts to cause such Shelf Registration Statement to become effective on or prior to 90 days after the Filing Deadline for the Shelf Registration Statement (such 90th day the "EFFECTIVENESS DEADLINE").

If, after the Issuer has filed an Exchange Offer Registration Statement that satisfies the requirements of Section 3(a) above, the Issuer is required to file and make effective a Shelf Registration Statement solely because the Exchange Offer is not permitted under applicable federal law (i.e., clause

(a)(i) above), then the filing of the Exchange Offer Registration Statement shall be deemed to satisfy the requirements of clause (x) above; PROVIDED that, in such event, the Issuer shall remain obligated to meet the Effectiveness Deadline set forth in clause (y) above.

To the extent necessary to ensure that the Shelf Registration Statement is available for sales of Transfer Restricted Securities by the Holders thereof entitled to the benefit of this Section 4(a) and the other securities required to be registered therein pursuant to Section 6(b)(ii) hereof, the Issuer shall use its best efforts to keep any Shelf Registration Statement required by this

Section 4(a) continuously effective, supplemented, amended and current as required by and subject to the provisions of Section 6(b) and Section 6(c) hereof and in conformity with the requirements of this Agreement, the Act and the policies, rules and regulations of the Commission as announced from time to time, for a period of at least two years (as extended pursuant to Section 6(c)(i) hereof) following the Closing Date, or such shorter period as will terminate when all Transfer Restricted Securities covered by such Shelf Registration Statement have been sold pursuant thereto.

(b) PROVISION BY HOLDERS OF CERTAIN INFORMATION IN CONNECTION WITH THE SHELF REGISTRATION STATEMENT. No Holder of Transfer Restricted Securities may include any of its Transfer Restricted Securities in any Shelf Registration Statement pursuant to this Agreement unless and until such Holder furnishes to the Issuer in writing, within 10 business days after receipt of a request therefor, the information specified in Item 507 or Item 508 of Regulation S-K, as applicable, of the Act for use in connection with any Shelf Registration Statement or Prospectus or preliminary Prospectus included therein. No Holder of Transfer Restricted Securities shall be entitled to liquidated damages pursuant to Section 5 hereof unless and until such Holder shall have provided all such information. Each selling Holder agrees to promptly furnish additional information required to be disclosed in order to make the information previously furnished to the Issuer by such Holder not materially misleading.

SECTION 5. LIQUIDATED DAMAGES

If (i) any Registration Statement required by this Agreement is not filed with the Commission on or prior to the applicable Filing Deadline, (ii) any such Registration Statement has not been declared effective by the Commission on or prior to the applicable Effectiveness Deadline, (iii) the Exchange Offer has not been Consummated on or prior to the Consummation Deadline or (iv) any Registration Statement required by this Agreement is filed and declared effective but shall thereafter cease to be effective or fail to be usable for its intended purpose without being succeeded immediately by a post-effective amendment to such Registration Statement that cures such failure and that is itself declared effective immediately (each such event referred to in clauses (i) through (iv), a "REGISTRATION DEFAULT"), then the Issuer hereby agrees to pay to each Holder of Transfer Restricted Securities affected thereby liquidated damages in an amount equal to \$.05 per week per \$1,000 in principal amount of Transfer Restricted Securities held by such Holder for each week or portion thereof that the Registration Default continues for the first 90-day period immediately following the occurrence of such Registration Default. The amount of the liquidated damages shall increase by an additional \$.05 per week per \$1,000 in principal amount of Transfer Restricted Securities with respect to each subsequent 90-day period until all Registration Defaults have been cured, up to a maximum amount of liquidated damages of \$.50 per week per \$1,000 in principal amount of Transfer Restricted Securities; PROVIDED that the Issuer shall in no event be required to pay liquidated damages for more than one Registration Default at any given time. Notwithstanding anything to the contrary set forth herein, (1) upon filing of the Exchange Offer Registration Statement

(and/or, if applicable, the Shelf Registration Statement), in the case of (i)

above, (2) upon the effectiveness of the Exchange Offer Registration Statement

(and/or, if applicable, the Shelf Registration Statement), in the case of (ii)

above, (3) upon Consummation of the Exchange Offer, in the case of (iii) above, or (4) upon the filing of a post-effective amendment to the Registration Statement or an additional Registration Statement that causes the Exchange Offer Registration Statement (and/or, if applicable, the Shelf Registration Statement) to again be declared effective or made usable in the case of (iv) above, the liquidated damages payable with respect to the Transfer Restricted Securities as a result of such clause (i), (ii), (iii) or (iv), as applicable, shall cease.

All accrued liquidated damages shall be paid to the Holders entitled thereto, in the manner provided for the payment of interest in the Indenture, on each Interest Payment Date, as more fully set forth in the Indenture and the Notes. Notwithstanding the fact that any securities for which liquidated damages are due cease to be Transfer Restricted Securities, all obligations of the Issuer to pay liquidated damages with respect to securities shall survive until such time as such obligations with respect to such securities shall have been satisfied in full.

SECTION 6. REGISTRATION PROCEDURES

(a) EXCHANGE OFFER REGISTRATION STATEMENT. In connection with the Exchange Offer, the Issuer shall (x) comply with all applicable provisions of

Section 6(c) below, (y) use its best efforts to effect such exchange and to permit the resale of Series B Notes by Broker-Dealers that tendered in the Exchange Offer Series A Notes that such Broker-Dealer acquired for its own account as a result of its market-making activities or other trading activities (other than Series A Notes acquired directly from the Issuer or any of its Affiliates) being sold in accordance with the

intended method or methods of distribution thereof, and (z) comply with all of the following provisions:

(i) If, following the date hereof there has been announced a change in Commission policy with respect to exchange offers such as the Exchange Offer, that in the reasonable opinion of counsel to the Issuer raises a substantial question as to whether the Exchange Offer is permitted by applicable federal law, the Issuer hereby agrees to seek a no-action letter or other favorable decision from the Commission allowing the Issuer to consummate an Exchange Offer for such Transfer Restricted Securities. The Issuer hereby agrees to pursue the issuance of such a decision to the Commission staff level. In connection with the foregoing, the Issuer hereby agrees to take all such other actions as may be requested by the Commission or otherwise required in connection with the issuance of such decision, including without limitation (A) participating in telephonic conferences with the Commission, (B) delivering to the Commission staff an analysis prepared by counsel to the Issuer setting forth the legal bases, if any, upon which such counsel has concluded that such an Exchange Offer should be permitted and (C) diligently pursuing a resolution (which need not be favorable) by the Commission staff.

(ii) As a condition to its participation in the Exchange Offer, each Holder of Transfer Restricted Securities (including, without limitation, any Holder who is a Broker-Dealer) shall furnish, upon the request of the Issuer, prior to the consummation of the Exchange Offer, a written representation to the Issuer (which may be contained in the letter of transmittal contemplated by the Exchange Offer Registration Statement) to the effect that (A) it is not an Affiliate of the Issuer, (B) it is not engaged in, and does not intend to engage in, and has no arrangement or understanding with any person to participate in, a distribution of the Series B Notes to be issued in the Exchange Offer and (C) it is acquiring the Series B Notes in its ordinary course of business. As a condition to its participation in the Exchange Offer each Holder using the Exchange Offer to participate in a distribution of the Series B Notes shall acknowledge and agree that, if the resales are of Series B Notes obtained by such Holder in exchange for Series A Notes acquired directly from the Issuer or an Affiliate thereof, it (1) could not, under Commission policy as in effect on the date of this Agreement, rely on the position of the Commission enunciated in EXXON CAPITAL HOLDINGS CORPORATION (available May 13, 1988) and MORGAN STANLEY AND CO., INC. (available June 5, 1991), as interpreted in the Commission's letter to SHEARMAN & STERLING dated July 2, 1993, and similar no-action letters (including, if applicable, any no-action letter obtained pursuant to clause (i) above), and (2) must comply with the registration and prospectus delivery requirements of the Act in connection with a secondary resale transaction and that such a secondary resale transaction must be covered by an effective registration statement containing the selling security holder information required by Item 507 or Item 508, as applicable, of Regulation S-K.

(iii) Prior to effectiveness of the Exchange Offer Registration Statement, the Issuer shall provide a supplemental letter to the Commission (A) stating that the Issuer is registering the Exchange Offer in reliance on the position of the Commission enunciated in EXXON CAPITAL HOLDINGS CORPORATION (available May 13, 1988), MORGAN STANLEY AND CO., INC. (available June 5, 1991) as interpreted in the Commission's letter to SHEARMAN

& STERLING dated July 2, 1993, and, if applicable, any no-action letter obtained pursuant to clause (i) above, (B) including a representation that the Issuer has not entered into any arrangement or understanding with any Person to distribute the Series B Notes to be received in the Exchange Offer and that, to the best of the Issuer's information and belief, each Holder participating in the Exchange Offer is acquiring the Series B Notes in its ordinary course of business and has no arrangement or understanding with any Person to participate in the distribution of the Series B Notes received in the Exchange Offer and (C) any other undertaking or representation required by the Commission as set forth in any no-action letter obtained pursuant to clause (i) above, if applicable.

(b) SHELF REGISTRATION STATEMENT. In connection with the Shelf Registration Statement, the Issuer shall:

(i) comply with all the provisions of Section 6(c) below and use its reasonable best efforts to effect such registration to permit the sale of the Transfer Restricted Securities being sold in accordance with the intended method or methods of distribution thereof (as indicated in the information furnished to the Company pursuant to Section 4(b) hereof), and pursuant thereto the Issuer will prepare and file with the Commission a Registration Statement relating to the registration on any appropriate form under the Act, which form shall be available for the sale of the Transfer Restricted Securities in accordance with the intended method or methods of distribution thereof within the time periods and otherwise in accordance with the provisions hereof, and

(ii) issue, upon the request of any Holder or purchaser of Series A Notes covered by any Shelf Registration Statement contemplated by this Agreement, Series B Notes having an aggregate principal amount equal to the aggregate principal amount of Series A Notes sold pursuant to the Shelf Registration Statement and surrendered to the Issuer for cancellation; the Issuer shall register Series B Notes on the Shelf Registration Statement for this purpose and issue the Series B Notes to the purchasers of securities subject to the Shelf Registration Statement in the names as such purchasers shall designate.

(c) GENERAL PROVISIONS. In connection with any Registration Statement and any related Prospectus required by this Agreement, the Issuer shall:

(i) use its reasonable best efforts to keep such Registration Statement continuously effective and provide all requisite financial statements for the period specified in Section 3 or Section 4 of this Agreement, as applicable. Upon the occurrence of any event that would cause any such Registration Statement or the Prospectus contained therein (A) to contain an untrue statement of material fact or omit to state any material fact necessary to make the statements therein not misleading or (B) not to be effective and usable for resale of Transfer Restricted Securities during the period required by this Agreement, the Issuer shall file promptly an appropriate amendment to such Registration Statement curing such defect, and, if Commission review is required, use its best efforts to cause such amendment to be declared effective as soon as practicable. Notwithstanding the foregoing, the Issuer may allow the Shelf Registration Statement and the related Prospectus to cease to become effective and usable if (x) the board of directors

of the Company determines in good faith that it is in the best interests of the Company not to disclose the existence of or facts surrounding any proposed or pending material corporate transaction involving the Issuer or the Guarantors, and the Company notifies the Holders within two business days after such board of directors makes such determination, or (y) the Prospectus contained in the Shelf Registration Statement contains an untrue statement of a material fact or omits to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading; PROVIDED that the two-year period referred to in Section 4(a) hereof during which the Shelf Registration Statement is required to be effective and usable shall be extended by the number of days during which such Registration Statement was not effective or usable pursuant to the foregoing provisions;

(ii) prepare and file with the Commission such amendments and post-effective amendments to the applicable Registration Statement as may be necessary to keep such Registration Statement effective for the applicable period set forth in Section 3 or Section 4 hereof, as the case may be; cause the Prospectus to be supplemented by any required Prospectus supplement, and as so supplemented to be filed pursuant to Rule 424 under the Act, and to comply fully with Rules 424, 430A and 462, as applicable, under the Act in a timely manner; and comply with the provisions of the Act with respect to the disposition of all securities covered by such Registration Statement during the applicable period in accordance with the intended method or methods of distribution by the sellers thereof set forth in such Registration Statement or supplement to the Prospectus;

(iii) subject to Section 6(c)(i), if any fact or event contemplated by Section 6(d)(i)(D) above shall exist or have occurred, prepare a supplement or post-effective amendment to the Registration Statement or related Prospectus or any document incorporated therein by reference or file any other required document so that, as thereafter delivered to the purchasers of Transfer Restricted Securities, the Prospectus will not contain an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(iv) in connection with any sale of Transfer Restricted Securities that will result in such securities no longer being Transfer Restricted Securities, cooperate with the Holders to facilitate the timely preparation and delivery of certificates representing Transfer Restricted Securities to be sold and not bearing any restrictive legends; and to register such Transfer Restricted Securities in such denominations and such names as the selling Holders may request at least two business days prior to such sale of Transfer Restricted Securities;

(v) use its best efforts to cause the disposition of the Transfer Restricted Securities covered by the Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to enable the seller or sellers thereof to consummate the disposition of such Transfer Restricted Securities, subject to the proviso contained in Section 6 (d)(ix) below;

(vi) provide a CUSIP number for all Transfer Restricted Securities not later than the effective date of a Registration Statement covering such Transfer Restricted Securities and provide the Trustee under the Indenture with printed certificates for the Transfer Restricted Securities which are in a form eligible for deposit with the Depository Trust Company;

(vii) otherwise use its best efforts to comply with all applicable rules and regulations of the Commission, and make generally available to its security holders with regard to any applicable Registration Statement, as soon as practicable, a consolidated earnings statement meeting the requirements of Rule

158 (which need not be audited) covering a twelve-month period beginning after the effective date of the Registration Statement (as such term is defined in paragraph (c) of Rule 158 under the Act);

(viii) cause the Indenture to be qualified under the TIA not later than the effective date of the first Registration Statement required by this Agreement and, in connection therewith, cooperate with the Trustee and the Holders to effect such changes to the Indenture as may be required for such Indenture to be so qualified in accordance with the terms of the TIA; and execute and use its best efforts to cause the Trustee to execute, all documents that may be required to effect such changes and all other forms and documents required to be filed with the Commission to enable such Indenture to be so qualified in a timely manner; and

(ix) provide promptly to each Holder, upon request, each document filed with the Commission pursuant to the requirements of Section 13 or Section 15(d) of the Exchange Act.

(d) ADDITIONAL PROVISIONS APPLICABLE TO SHELF REGISTRATION STATEMENTS. In connection with any Shelf Registration Statement and any related Prospectus required by this Agreement, the Issuer shall:

(i) advise each Holder promptly and, if requested by such Holder, confirm such advice in writing, (A) when the Prospectus or any Prospectus supplement or post-effective amendment has been filed, and, with respect to any applicable Shelf Registration Statement or any post-effective amendment thereto, when the same has become effective, (B) of any request by the Commission for amendments to the Shelf Registration Statement or amendments or supplements to the Prospectus or for additional information relating thereto, (C) of the issuance by the Commission of any stop order suspending the effectiveness of the Shelf Registration Statement under the Act or of the suspension by any state securities commission of the qualification of the Transfer Restricted Securities for offering or sale in any jurisdiction, or the initiation of any proceeding for any of the preceding purposes, (D) of the existence of any fact or the happening of any event that makes any statement of a material fact made in the Shelf Registration Statement, the Prospectus, any amendment or supplement thereto or any document incorporated by reference therein untrue, or that requires the making of any additions to or changes in the Shelf Registration Statement in order to make the statements therein not misleading, or that requires the making of any additions to or changes in the Prospectus in order to make the statements therein, in the light of the

circumstances under which they were made, not misleading. If at any time the Commission shall issue any stop order suspending the effectiveness of the Registration Statement, or any state securities commission or other regulatory authority shall issue an order suspending the qualification or exemption from qualification of the Transfer Restricted Securities under state securities or Blue Sky laws, the Issuer shall use its best efforts to obtain the withdrawal or lifting of such order at the earliest possible time;

(ii) if requested in writing, furnish to each Holder in connection with such sale, if any, before filing with the Commission, copies of any Shelf Registration Statement or any Prospectus included therein or any amendments or supplements to any such Shelf Registration Statement or Prospectus (including all documents incorporated by reference after the initial filing of such Shelf Registration Statement), which documents will be subject to the review and comment of such Holders in connection with such sale, if any, for a period of at least five business days, and the Company will not file any such Shelf Registration Statement or Prospectus or any amendment or supplement to any such Shelf Registration Statement or Prospectus (including all such documents incorporated by reference) to which such Holders shall reasonably object within five business days after the receipt thereof. A Holder shall be deemed to have reasonably objected to such filing if such Shelf Registration Statement, amendment, Prospectus or supplement, as applicable, as proposed to be filed, contains an untrue statement of a material fact or omits to state any material fact necessary to make the statements therein not misleading or fails to comply with the applicable requirements of the Act;

(iii) promptly prior to the filing of any document that is to be incorporated by reference into a Shelf Registration Statement or Prospectus, provide copies of such document to each Holder in connection with such sale, if any, make the Issuer's representatives available for discussion of such document and other customary due diligence matters, and include such information in such document prior to the filing thereof as such Holders may reasonably request;

(iv) make available, at reasonable times, for inspection by each Holder and any attorney or accountant retained by such Holders, all financial and other records, pertinent corporate documents of the Issuer and cause the Issuer's officers, directors and employees to supply all information reasonably requested by any such Holder, attorney or accountant in connection with such Registration Statement or any post-effective amendment thereto subsequent to the filing thereof and prior to its effectiveness;

(v) if requested by any Holders in connection with such exchange or sale, promptly include in any Shelf Registration Statement or Prospectus, pursuant to a supplement or post-effective amendment if necessary, such information as such Holders may reasonably request to have included therein, including, without limitation, information relating to the "Plan of Distribution" of the Transfer Restricted Securities; and make all required filings of such Prospectus supplement or post-effective amendment as soon as practicable after the Company is notified of the matters to be included in such Prospectus supplement or post-effective amendment;

(vi) furnish to each Holder in connection with such sale, without charge, at least one copy of the Shelf Registration Statement, as first filed with the Commission, and of each amendment thereto, including all documents incorporated by reference therein and all exhibits (including exhibits incorporated therein by reference);

(vii) deliver to each Holder without charge, as many copies of the Prospectus (including each preliminary prospectus) and any amendment or supplement thereto as such Persons reasonably may request; the Issuer hereby consents to the use (in accordance with law) of the Prospectus and any amendment or supplement thereto by each selling Holder in connection with the offering and the sale of the Transfer Restricted Securities covered by the Prospectus or any amendment or supplement thereto;

(viii) upon the request of any Holder, enter into such agreements (including underwriting agreements) and make such representations and warranties and take all such other actions in connection therewith in order to expedite or facilitate the disposition of the Transfer Restricted Securities pursuant to any applicable Registration Statement contemplated by this Agreement as may be reasonably requested by any Holder in connection with any sale or resale pursuant to any Shelf Registration Statement. In such connection, the Issuer shall:

(A) upon request of any Holder, furnish (or in the case of paragraphs (2) and (3), use its reasonable best efforts to cause to be furnished) to each Holder, upon the effectiveness of the Shelf Registration Statement:

(1) a certificate, dated such date, signed on behalf of the Issuer by (x) the President or any Vice President and (y) a principal financial or accounting officer of the Issuer, confirming, as of the date thereof, the matters set forth in Sections 8(a), 8(b), 8(c), 8(d) and 8(q) of the Purchase Agreement and such other similar matters as such Holders may reasonably request;

(2) an opinion, dated the date of effectiveness of the Shelf Registration Statement, of counsel for the Issuer covering matters similar to those set forth in paragraph (f) of Section 8 of the Purchase Agreement and such other matters as such Holder may reasonably request, and in any event including a statement to the effect that such counsel has participated in conferences with officers and other representatives of the Issuer, representatives of the independent public accountants for the Issuer and have considered the matters required to be stated therein and the statements contained therein, although such counsel has not independently verified the accuracy, completeness or fairness of such statements; and that such counsel advises that, on the basis of the foregoing (relying as to materiality to the extent such counsel deems appropriate upon the statements of officers and other representatives of the Issuer and without independent check or verification), no facts came to such counsel's attention that caused such counsel to believe that the Shelf Registration Statement, at the time such Shelf Registration Statement or any post-

effective amendment thereto became effective, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus contained in such Shelf Registration Statement as of its date contained an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. Without limiting the foregoing, such counsel may state further that such counsel assumes no responsibility for, and has not independently verified, the accuracy, completeness or fairness of the financial statements, notes and schedules and other financial data included in any Shelf Registration Statement contemplated by this Agreement or the related Prospectus; and

(3) a customary comfort letter, dated the date of effectiveness of the Shelf Registration Statement, from the Issuer's independent accountants, in the customary form and covering matters of the type customarily covered in comfort letters to underwriters in connection with underwritten offerings, and affirming the matters set forth in the comfort letters delivered pursuant to Section 8(g) of the Purchase Agreement; and

(B) deliver such other documents and certificates as may be reasonably requested by the selling Holders to evidence compliance with the matters covered in clause (A) above and with any customary conditions contained in any agreement entered into by the Issuer pursuant to this clause (viii);

(ix) prior to any public offering of Transfer Restricted Securities, cooperate with the selling Holders and their counsel in connection with the registration and qualification of the Transfer Restricted Securities under the securities or Blue Sky laws of such jurisdictions as the selling Holders may request and do any and all other acts or things necessary or advisable to enable the disposition in such jurisdictions of the Transfer Restricted Securities covered by the Shelf Registration Statement; PROVIDED, HOWEVER, that the Issuer shall not be required to register or qualify as a foreign corporation where it is not now so qualified or to take any action that would subject it to the service of process in suits or to taxation, other than as to matters and transactions relating to the Shelf Registration Statement, in any jurisdiction where it is not now so subject.

(e) RESTRICTIONS ON HOLDERS. Each Holder agrees by acquisition of a Transfer Restricted Security that, upon receipt of the notice referred to in

Section 6(d)(i)(C) or any notice from the Issuer of the existence of any fact of the kind described in Section 6(d)(i)(D) hereof (in each case, a "SUSPENSION NOTICE"), such Holder will forthwith discontinue disposition of Transfer Restricted Securities pursuant to the Shelf Registration Statement until (i) such Holder has received copies of the supplemented or amended Prospectus contemplated by Section 6(c)(iii) hereof, or (ii) such Holder is advised in writing by the Issuer that the use of the Prospectus may be resumed, and has received copies of any additional or supplemental filings that are incorporated by reference in the Prospectus (in each case, the "RECOMMENCEMENT

DATE"). Each Holder receiving a Suspension Notice hereby agrees that it will either (i) destroy any Prospectuses, other than permanent file copies, then in such Holder's possession which have been replaced by the Issuer with more recently dated Prospectuses or (ii) deliver to the Issuer (at the Issuer's expense) all copies, other than permanent file copies, then in such Holder's possession of the Prospectus covering such Transfer Restricted Securities that was current at the time of receipt of the Suspension Notice. The time period regarding the effectiveness of such Shelf Registration Statement set forth in

Section 4 hereof shall be extended by a number of days equal to the number of days in the period from and including the date of delivery of the Suspension Notice to the date of delivery of the Recommencement Date.

SECTION 7. REGISTRATION EXPENSES

(a) All expenses incident to the Issuer's performance of or compliance with this Agreement will be borne by the Issuer, regardless of whether a Registration Statement becomes effective, including without limitation: (i) all registration and filing fees and expenses; (ii) all fees and expenses of compliance with federal securities and state Blue Sky or securities laws; (iii) all expenses of printing (including printing certificates for the Series B Notes to be issued in the Exchange Offer and printing of Prospectuses, messenger and delivery services and telephone); (iv) all fees and disbursements of counsel for the Issuer; (v) all application and filing fees in connection with listing the Series B Notes on a national securities exchange or automated quotation system pursuant to the requirements hereof; (vi) all fees and disbursements of independent certified public accountants of the Issuer (including the expenses of any special audit and comfort letters required by or incident to such performance); and (vii) all fees and expenses of the Trustee and any exchange agent (including all fees and expenses of their counsel).

The Issuer will, in any event, bear its internal expenses (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expenses of any annual audit and the fees and expenses of any Person, including special experts, retained by the Issuer.

(b) In connection with any Registration Statement required by this Agreement (including, without limitation, the Exchange Offer Registration Statement and the Shelf Registration Statement), the Issuer will reimburse the Initial Purchasers and the Holders of Transfer Restricted Securities who are tendering Series A Notes into in the Exchange Offer and/or selling or reselling Series A Notes or Series B Notes pursuant to the "Plan of Distribution" contained in the Exchange Offer Registration Statement or the Shelf Registration Statement, as applicable, for the reasonable fees and disbursements of not more than one counsel, who shall be Latham & Watkins, unless another firm shall be chosen by the Holders of a majority in principal amount of the Transfer Restricted Securities for whose benefit such Registration Statement is being prepared.

SECTION 8. INDEMNIFICATION

(a) The Issuer agrees to indemnify and hold harmless each Holder, its directors, officers and each Person, if any, who controls such Holder (within the meaning of Section 15 of the Act or Section 20 of the Exchange Act), from and against any and all losses, claims,

damages, liabilities, judgments (including without limitation, any legal or other expenses incurred in connection with investigating or defending any matter, including any action that could give rise to any such losses, claims, damages, liabilities or judgments) caused by any untrue statement or alleged untrue statement of a material fact contained in any Registration Statement, preliminary prospectus or Prospectus (or any amendment or supplement thereto) provided by the Issuer to any Holder or any prospective purchaser of Series B Notes or registered Series A Notes, or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities or judgments are caused by an untrue statement or omission or alleged untrue statement or omission that is based upon information relating to any Holder furnished in writing to the Issuer by such Holder.

(b) Each Holder agrees, severally and not jointly, to indemnify and hold harmless the Issuer, and its directors and officers, and each person, if any, who controls (within the meaning of Section 15 of the Act or Section 20 of the Exchange Act) the Issuer to the same extent as the foregoing indemnity from the Issuer set forth in section (a) above, but only with reference to information relating to such Holder furnished in writing to the Issuer by such Holder expressly for use in any Registration Statement. In no event shall any Holder, its directors, officers or any Person who controls such Holder be liable or responsible for any amount in excess of the amount by which the total amount received by such Holder with respect to its sale of Transfer Restricted Securities pursuant to a Registration Statement exceeds (i) the amount paid by such Holder for such Transfer Restricted Securities and (ii) the amount of any damages that such Holder, its directors, officers or any Person who controls such Holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission.

(c) In case any action shall be commenced involving any person in respect of which indemnity may be sought pursuant to Section 8(a) or Section

8(b) (the "INDEMNIFIED PARTY"), the indemnified party shall promptly notify the person against whom such indemnity may be sought (the "INDEMNIFYING PERSON") in writing and the indemnifying party shall assume the defense of such action, including the employment of counsel reasonably satisfactory to the indemnified party and the payment of all fees and expenses of such counsel, as incurred (except that in the case of any action in respect of which indemnity may be sought pursuant to both Sections 8(a) and 8(b), a Holder shall not be required to assume the defense of such action pursuant to this Section 8(c), but may employ separate counsel and participate in the defense thereof, but the fees and expenses of such counsel, except as provided below, shall be at the expense of the Holder). Any indemnified party shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of the indemnified party unless (i) the employment of such counsel shall have been specifically authorized in writing by the indemnifying party, (ii) the indemnifying party shall have failed to assume the defense of such action or employ counsel reasonably satisfactory to the indemnified party or (iii) the named parties to any such action (including any impleaded parties) include both the indemnified party and the indemnifying party, and the indemnified party shall have been advised by such counsel and shall have provided notice to the indemnifying party of such advice of counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the indemnifying party (in which case the indemnifying party shall not have the right to assume the defense of such action on behalf of the indemnified party). In any such case, the indemnifying party shall not, in connection with any

one action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the fees and expenses of more than one separate firm of attorneys (in addition to any local counsel) for all indemnified parties and all such fees and expenses shall be reimbursed as they are incurred. Such firm shall be designated in writing by a majority of the Holders, in the case of the parties indemnified pursuant to Section 8(a), and by the Issuer, in the case of parties indemnified pursuant to Section 8(b). The indemnifying party shall indemnify and hold harmless the indemnified party from and against any and all losses, claims, damages, liabilities and judgments by reason of any settlement of any action (i) effected with its written consent or (ii) effected without its written consent if the settlement is entered into more than twenty business days after the indemnifying party shall have received a request from the indemnified party for reimbursement for the fees and expenses of counsel (in any case where such fees and expenses are at the expense of the indemnifying party) and, prior to the date of such settlement, the indemnifying party shall have failed to comply with such reimbursement request. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement or compromise of, or consent to the entry of judgment with respect to, any pending or threatened action in respect of which the indemnified party is or could have been a party and indemnity or contribution may be or could have been sought hereunder by the indemnified party, unless such settlement, compromise or judgment (i) includes an unconditional release of the indemnified party from all liability on claims that are or could have been the subject matter of such action and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of the indemnified party.

(d) To the extent that the indemnification provided for in this Section 8 is unavailable to an indemnified party in respect of any losses, claims, damages, liabilities or judgments referred to therein, then each indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities or judgments (i) in such proportion as is appropriate to reflect the relative benefits received by the Issuer, on the one hand, and the Holders, on the other hand, from the sale of Transfer Restricted Securities or (ii) if the allocation provided by clause 8(d)(i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause 8(d)(i) above but also the relative fault of the Issuer, on the one hand, and of the Holders, on the other hand, in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities or judgments, as well as any other relevant equitable considerations. The relative fault of the Issuer, on the one hand, and of the Holders, on the other hand, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Issuer, on the one hand, or by the Holders, on the other hand, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and judgments referred to above shall be deemed to include, subject to the limitations set forth in the second paragraph of Section 8(a), any legal or other fees or expenses reasonably incurred by such party in connection with investigating or defending any action or claim.

The Issuer and each Holder agree that it would not be just and equitable if contribution pursuant to this Section 8(d) were determined by pro rata allocation (even if the Holders were treated as one entity for such purpose) or by any other method of allocation which does not take

account of the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an indemnified party as a result of the losses, claims, damages, liabilities or judgments referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any matter, including any action that could have given rise to such losses, claims, damages, liabilities or judgments. Notwithstanding the provisions of this Section 8, no Holder, its directors, its officers or any Person, if any, who controls such Holder shall be required to contribute, in the aggregate, any amount in excess of the amount by which the total received by such Holder with respect to the sale of Transfer Restricted Securities pursuant to a Registration Statement exceeds (i) the amount paid by such Holder for such Transfer Restricted Securities and (ii) the amount of any damages which such Holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Holders' obligations to contribute pursuant to this Section 8(d) are several in proportion to the respective principal amount of Transfer Restricted Securities held by each Holder hereunder and not joint.

SECTION 9. RULE 144A AND RULE 144

The Issuer agrees with each Holder, for so long as any Transfer Restricted Securities remain outstanding and during any period in which the Issuer (i) is not subject to Section 13 or 15(d) of the Exchange Act, to make available, upon request of any Holder, to such Holder or beneficial owner of Transfer Restricted Securities in connection with any sale thereof and any prospective purchaser of such Transfer Restricted Securities designated by such Holder or beneficial owner, the information required by Rule 144A(d)(4) under the Act in order to permit resales of such Transfer Restricted Securities pursuant to Rule 144A, and (ii) is subject to Section 13 or 15 (d) of the Exchange Act, to make all filings required thereby in a timely manner in order to permit resales of such Transfer Restricted Securities pursuant to Rule 144.

SECTION 10. MISCELLANEOUS

(a) REMEDIES. The Issuer acknowledges and agrees that any failure by the Issuer to comply with its obligations under Sections 3 and 4 hereof may result in material irreparable injury to the Initial Purchasers or the Holders for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of any such failure, the Initial Purchasers or any Holder may obtain such relief as may be required to specifically enforce the Issuer's obligations under Sections 3 and 4 hereof. The Issuer further agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

(b) NO INCONSISTENT AGREEMENTS. The Issuer will not, on or after the date of this Agreement, enter into any agreement with respect to its securities that is inconsistent with the rights granted to the Holders in this Agreement or otherwise conflicts with the provisions hereof. The Issuer has not previously entered into any agreement granting any registration rights with respect to its securities to any Person. The rights granted to the Holders hereunder do not in any

way conflict with and are not inconsistent with the rights granted to the holders of the Issuer's securities under any agreement in effect on the date hereof.

(c) AMENDMENTS AND WAIVERS. The provisions of this Agreement may not be amended, modified or supplemented, and waivers or consents to or departures from the provisions hereof may not be given unless (i) in the case of Section 5 hereof and this Section 10(c)(i), the Issuer has obtained the written consent of Holders of all outstanding Transfer Restricted Securities and (ii) in the case of all other provisions hereof, the Issuer has obtained the written consent of Holders of a majority of the outstanding principal amount of Transfer Restricted Securities (excluding Transfer Restricted Securities held by the Issuer or its Affiliates). Notwithstanding the foregoing, a waiver or consent to departure from the provisions hereof that relates exclusively to the rights of Holders whose Transfer Restricted Securities are being tendered pursuant to the Exchange Offer, and that does not affect directly or indirectly the rights of other Holders whose Transfer Restricted Securities are not being tendered pursuant to such Exchange Offer, may be given by the Holders of a majority of the outstanding principal amount of Transfer Restricted Securities subject to such Exchange Offer.

(d) THIRD PARTY BENEFICIARY. The Holders shall be third party beneficiaries to the agreements made hereunder between the Issuer, on the one hand, and the Initial Purchasers, on the other hand, and shall have the right to enforce such agreements directly to the extent they may deem such enforcement necessary or advisable to protect its rights or the rights of Holders hereunder.

(e) NOTICES. All notices and other communications provided for or permitted hereunder shall be made in writing by hand-delivery, first-class mail (registered or certified, return receipt requested), telex, telecopier, or air courier guaranteeing overnight delivery:

(i) if to a Holder, at the address set forth on the records of the Registrar under the Indenture, with a copy to the Registrar under the Indenture; and

(ii) if to the Issuer:

International Specialty Holdings Inc. c/o ISP Management Company, Inc. 1361 Alps Road Wayne, NJ 07470 Telecopier No.: (973) 628-3229
Attention: General Counsel

With a copy to:

Weil, Gotshal & Manges LLP 767 Fifth Avenue New York, NY 10153 Telecopier No.: 212-735-4781 Attention: Michael E. Lubowitz

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; five business days after being deposited in the mail, postage prepaid, if mailed; when receipt acknowledged, if telecopied; and on the next business day, if timely delivered to an air courier guaranteeing overnight delivery.

Copies of all such notices, demands or other communications shall be concurrently delivered by the Person giving the same to the Trustee at the address specified in the Indenture.

(f) SUCCESSIONS AND ASSIGNS. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties, including without limitation and without the need for an express assignment, subsequent Holders; PROVIDED that nothing herein shall be deemed to permit any assignment, transfer or other disposition of Transfer Restricted Securities in violation of the terms hereof or of the Purchase Agreement or the Indenture. If any transferee of any Holder shall acquire Transfer Restricted Securities in any manner, whether by operation of law or otherwise, such Transfer Restricted Securities shall be held subject to all of the terms of this Agreement, and by taking and holding such Transfer Restricted Securities such Person shall be conclusively deemed to have agreed to be bound by and to perform all of the terms and provisions of this Agreement, including the restrictions on resale set forth in this Agreement and, if applicable, the Purchase Agreement, and such Person shall be entitled to receive the benefits hereof.

(g) COUNTERPARTS. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(h) HEADINGS. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(i) GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICT OF LAW RULES THEREOF.

(j) SEVERABILITY. In the event that any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be affected or impaired thereby.

(k) ENTIRE AGREEMENT. This Agreement is intended by the parties as a final expression of their agreement and

intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein with respect to the registration rights granted with respect to the Transfer Restricted Securities. This Agreement supersedes all prior agreements and understandings between the parties with respect to such subject matter.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

ISSUER:

INTERNATIONAL SPECIALTY HOLDINGS INC.

By: /s/ Andrew J. Diamond

Name: Andrew J. Diamond
Title: Vice President and Assistant Treasurer

INITIAL PURCHASERS:

BEAR, STEARNS & CO. INC.

By: /s/ Joseph B. Sheehan

Name: Joseph B. Sheehan
Title: Sr. Managing Director

UBS WARBURG LLC

By: /s/

Name:
Title:

EXHIBIT 10.5

AMENDMENT No. 4, dated as of January 1, 2002, to AMENDED AND RESTATED MANAGEMENT AGREEMENT, dated as of January 1, 1999, as amended by Amendment No. 1, dated as of January 1, 2000, Amendment No. 2, dated as of January 1, 2001, and Amendment No. 3, dated as of June 27, 2001 (as so amended, the "Agreement"), by and among G-I Holdings Inc. (formerly known as GAF Building Materials Corporation), Merick Inc., International Specialty Products Inc. (formerly known as ISP Holdings Inc.) ("ISP" or "New ISP"), ISP Investco LLC ("Investco"), GAF Broadcasting Company, Inc., Building Materials Corporation of America ("BMCA"), and ISP Management Company, Inc. (the "Company"), as assignee of ISP Chemco Inc. (formerly known as ISP Opco Holdings Inc.). Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to them in the Agreement.

WHEREAS, the parties desire to amend the Agreement to reflect a change in ownership of the real property subject to the Lease, and

WHEREAS, in accordance with Section 7 of the Agreement, the parties desire to adjust the management fees payable to the Company under the Agreement, effective January 1, 2002, in order to reflect the costs to the Company of providing services thereunder;

NOW, THEREFORE, the parties hereby amend the Agreement as follows:

1. Section 3 of the Agreement is amended, effective as of January 1, 2002, to read in its entirety as follows:

"In consideration of the Company providing Services hereunder, each of the corporations listed below shall pay to the Company a management fee (the "Management Fee") at the following respective rates for the quarter ending March 31, 2002 and for each quarter thereafter for which this Agreement has been extended as provided in Section 1 of this Agreement: BMCA (on behalf of itself, its parents and its subsidiaries) - \$1,161,750, ISP - \$25,000 and, Investco (on behalf of itself and its subsidiaries) - \$1,037,500. The Management Fee shall be payable monthly in arrears.

In addition to the Management Fee, a wholly owned subsidiary of BMCA shall pay to Company (as successor to both the overlandlord's and sublandlord's interests in the subject real property) rent payments pursuant to and in accordance with the terms of the Sublease (as amended) between such wholly owned subsidiary of BMCA and Company, the form of which is attached as Exhibit A hereto and made a part hereof.

The Company, on behalf of its affiliate as tenant under the Lease attached hereto as Exhibit B and made a part hereof (the "Lease"), shall pay or cause to be paid to the landlord under the Lease (such landlord being a subsidiary of G-I Holdings) the lease payments due and payable under the Lease in accordance with the terms of the Lease, as the Company shall be reimbursed by such affiliate for all such lease payments made on its behalf.

In consideration of BMCA providing G-I Services hereunder, G-I Holdings (on behalf of itself and its subsidiaries other than BMCA and BMCA's subsidiaries) shall pay to BMCA a management fee (the "G-I Management Fee") at the rate of \$200,000 for the

quarter ended March 31, 2002 and for each quarter thereafter for which this Agreement has been extended as provided in Section 1 of this Agreement. The G-I Management Fee shall be payable monthly in arrears."

2. Exhibit A to the Agreement is hereby amended to substitute therefore Exhibit A to this Amendment.

3. In all other respects, the Agreement as previously amended shall remain in full force and effect.

4. This Amendment is subject to the approval of the Board of Directors of the Company.

5. This Amendment may be executed in one or more counterparts, each of which shall be an original but all of which, taken together, shall constitute one and the same instrument. Failure by any one party to execute this Amendment shall not effect the rights and obligations of any other party signatory hereto.

IN WITNESS WHEREOF, the parties have executed this Amendment on the date and year first above written.

G-I HOLDINGS INC. GAF BROADCASTING COMPANY, INC.

By: /s/ Richard A. Weinberg	By: /s/ Susan B. Yoss
-----	-----
Name: Richard A. Weinberg	Name: Susan B. Yoss
Title: President, Chief Executive Officer and General Counsel	Title: Senior Vice President and Treasurer

MERICK INC. BUILDING MATERIALS CORPORATION OF AMERICA

By: /s/ Susan B. Yoss	By: /s/ William W. Collins
-----	-----
Name: Susan B. Yoss	Name: William W. Collins
Title: Senior Vice President and Treasurer	Title: President and Chief Executive Officer

INTERNATIONAL SPECIALTY PRODUCTS INC. ISP MANAGEMENT COMPANY, INC.

By: /s/ Sunil Kumar	By: /s/ Sunil Kumar
-----	-----
Name: Sunil Kumar	Name: Sunil Kumar
Title: Chief Executive Officer and President	Title: Chief Executive Officer and President

ISP INVESTCO LLC

By: /s/ Susan B. Yoss

Name: Susan B. Yoss
Title: Executive Vice President - Finance and Treasurer of International Specialty Holdings Inc., sole member

EXHIBIT 21

INTERNATIONAL SPECIALTY PRODUCTS INC. LIST OF SUBSIDIARIES

COMPANY -----	JURISDICTION OF FORMATION -----
Belleville Realty Corp.	Delaware
International Specialty Holdings Inc.	Delaware
ISP Investco LLC	Delaware
International Specialty Products ISP (France) S.A.	France
ISP (Italia) S.r.l.	Italy
ISP Ireland(1)	Ireland
ISP Chemco Inc.	Delaware
Bluehall Incorporated	Delaware
Verona Inc.	Delaware
ISP Alginates Inc.	Delaware
ISP Environmental Services Inc.	Delaware
ISP Management Company, Inc.	Delaware
ISP Management LLC	Delaware
ISP Administration Inc.	Delaware
ISP Realty Corporation	Delaware
ISP Minerals Inc.	Delaware
ISP Granule Products Inc.	Delaware
ISP Minerals LLC	Delaware
ISP Granules Inc.	Delaware
ISP Mineral Products Inc.	Delaware
ISP Real Estate Company, Inc.	Delaware
ISP Technologies Inc.	Delaware
International Specialty Products Funding Corporation	Delaware
ISP Funding Corp. II	Delaware
ISP Technologies LLC	Delaware
ISP Tech (Texas) Inc.	Delaware
ISP Chemicals Inc.	Delaware
ISP Chemicals LLC	Delaware
ISP Chemical Products Inc.	Delaware
ISP Freetown Fine Chemicals Inc.	Delaware
ISP Investments Inc.	Delaware
ISP Investments LLC	Delaware
ISP Capital Inc.	Delaware
ISP Global Technologies Inc.	Delaware
ISP Global Technologies LLC	Delaware
ISP GT Inc.	Delaware
ISP International Corp.	Delaware
ISP (Puerto Rico) Inc.	Delaware

(1) 75% owned by International Specialty Products ISP (France) S.A; 25% owned by ISP (Italia) S.r.l.

COMPANY

JURISDICTION OF
FORMATION

ISP Andina, C.A.	Venezuela
ISP Argentina S.A.	Argentina
ISP Asia Pacific Pte Ltd.	Singapore
ISP (Australasia) Pte Ltd.	Australia
ISP (Belgium) N.V.	Belgium
ISP (Belgium) International N.V.	Belgium
ISP do Brasil Ltda.	Brazil
ISP (Canada) Inc.	Canada
ISP Global Operations (Barbados) Inc.	Barbados
ISP Ceska Republika Spol, S.R.O.	Czech. Rep.
ISP (China) Limited	China
ISP Colombia Ltda.	Colombia
ISP Freight Service N.V.	Belgium
ISP HC Limited	Cyprus
ISP Hungary Holdings Limited	Hungary
ISP Finetech Ltd.	Israel
ISP Global Technologies (Germany) Holding GmbH	Germany
ISP Customer Service GmbH	Germany
ISP Global Technologies Deutschland GmbH	Germany
ISP Holdings (U.K.) Ltd.	United Kingdom
ISP Alginates (U.K.) Ltd.	United Kingdom
ISP (Great Britain) Co. Ltd.	United Kingdom
ISP (Hong Kong) Limited	Hong Kong
ISP (Japan) Ltd.	Japan
ISP (Korea) Limited	Korea
ISP Marl Holdings GmbH	Germany
ISP Acetylene GmbH	Germany
ISP Marl GmbH	Germany
ISP Mexico, S.A. de C.V.	Mexico
ISP (Norden) A.B.	Sweden
ISP (Osterreich) Ges.m.b.h.	Austria
ISP (Polska) Sp.z. o.p.	Poland
ISP Sales (Barbados) Inc.	Barbados
ISP Sales (U.K.) Limited	Ireland
ISP (Singapore) Pte Ltd.	Singapore
ISP (Switzerland) A.G.	Switzerland
ISP (Thailand) Co., Ltd.	Thailand
Arramara Teoranta(2)	Ireland
Chemfields Pharmaceuticals Private Limited(3)	India
Kelp Industries Pty. Ltd.(4)	Tasmania
Thorverk Hf(5)	Iceland

-
- (2) 50.6% owned by ISP Global Technologies Inc.
 (3) 50.1% owned by ISP Global Technologies Inc.
 (4) 50% owned by ISP Global Technologies Inc.
 (5) 67% owned by ISP Global Technologies Inc.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporaton of our report dated February 27, 2002 included in this Form 10-K, into International Specialty Products Inc's previously filed Registration Statement on Form S-8 File Nos. 333-52504, 333-52638, 333-81486 and 333-81488.

/s/ ARTHUR ANDERSEN LLP

ARTHUR ANDERSEN LLP

Roseland, New Jersey
March 22, 2002

INTERNATIONAL SPECIALTY PRODUCTS INC. [LETTERHEAD]

March 22, 2002

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-0408

Re: LETTER TO COMMISSION PURSUANT TO TEMPORARY NOTE 3T

Ladies and Gentlemen:

Pursuant to Temporary Note 3T to Article 3 of Regulation S-X, International Specialty Products Inc. has obtained a letter of representation from Arthur Andersen LLP ("Andersen") stating that the December 31, 2001 audit was subject to their quality control system for the U.S. accounting and auditing practice to provide reasonable assurance that the engagement was conducted in compliance with professional standards, that there was appropriate continuity of Andersen personnel working on the audit, availability of national office consultation and availability of personnel at foreign affiliates of Andersen to conduct the relevant portions of the the audit.

Very truly yours,

International Specialty Products Inc.

/s/ Neal E. Murphy

*Neal E. Murphy
Senior Vice President and Chief Financial Officer*

End of Filing

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